NO. 352

AMERICAN CONSULATE GENERAL

Bombay, India, July 17, 1947

UNCLASSIFIED

SUBJECT: Question of a Trade Union Between Pakistan and Hindustan.
1—1055

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to enclose copies of an editorial from the Bombay Chronicle of July 10, 1947 entitled "Commercial Policy in Divided India".

The editorial notes that while a standstill arrangement regarding tariffs and import trade policy has been reached between Pakistan and the Indian Union to last for the period of transition, there is nothing to guarantee the continuation of such an arrangement unless formal treaty establishing a customs union is achieved. The editor believing that the best interests of both Pakistan and Hindustan would lie in having a commom commercial policy advocates such a treaty at the earliest possible moment.

In view of the strong division sentiment between the two sections of India, it is doubtful whether such a customs union can be achieved, at least until the present excessive mutual incrimination subsides.

Respectfully yours,

John J. Macdonald
American Consul General

Enclosure:

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INTERNATIONAL TRADE POLICY
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UNCLASSIFIED

AIR MAIL

Despatch no. 352, July 17, 1947,
Bombay, India.

Enclosure:

Article from the Bombay Chronicle dated July 10, 1947, (in quintuplicate).

850.4
J.V. MARTIN:df

Copies to:

American Embassy, London.
American Embassy, New Delhi.

UNCLASSIFIED

BOMBAY CHRONICLE, July 10, 1947

COMMERCIAL POLICY IN DIVIDED INDIA

It is welcome news that the representatives of the Pakistan and the Indian Union Governments have agreed to a standstill arrangement regarding tariffs and import trade policy over the period of transition. Such an agreement is essential not only in the interests of the internal economy of the two dominions but also in regard to our foreign interests. Trade policy is a plant of slow and gradual growth, and any sudden break in it is calculated to cause severe dislocation in established trade channels. At all times this would be a serious enough evil, but in our present context of import trade policy, it would be simply disastrous. That there is a dollar shortage impending for the world as a whole would not have normally disturbed us, as our export trade position has, as a rule, been sound, with regard to U.K. as well as U.S.A. But the enormous imports of food grains at high price levels, which cost the Government of India over 100 crores of rupees last year, are likely to strain the exchange position to an unusual extent. Moreover, there is the settlement of sterling balances in respect of which the import needs of all parts of India and the overall position in respect of balance of trade will have to be carefully estimated. For a long term and an inherently sound policy to be worked out in its internal and foreign applications the standstill agreement will provide the necessary breathing space.

We hope that the agreement will turn out to be a good augury for the mutually helpful and accommodating relations that all friends of Pakistan and the Indian Union desire to promote. It is, however, doubtful whether the analogy of separated Burma, which for five years continued to be in the Indian Customs Union, is really applicable to the case of Pakistan. Even after separation both India and Burma continued to be under a common Secretary of State's office, and the local representatives of H.M.G. in both areas naturally supplied a co-ordinating link. With Pakistan and the Indian Union functioning as fully independent States no such continuing link is available. Moreover, it will not do to ignore the natural feeling of freedom-consciousness which is bound to characterize the rulers of Pakistan. We would, therefore, urge that the standstill agreement should, at the earliest possible moment, be replaced by a formal treaty, and, if possible, by a fully organized customs union, in matters of common economic interests, which will supply the mechanism of common action.

While in certain significant respects there are noticeable differences in the foreign trade structure of the two Indian States, their essential similarity of position and interests is even more significant. The emergent food shortages, it is true, afflict the Indian Union far more extensively than the Pakistan provinces. But the dependence of the latter for a large variety of manufactured, as well as agricultural, products on the Indian mainland is equally obvious. While food imports are coming in mostly from outside, it is not immediately possible, certainly not economically profitable, to import large quantities of manufactured articles from abroad. None of the States with whom Pakistan can conceivably claim to have more intimate relations than the rest of India are in a position to supply the economic wants of the separated Indian provinces. While both the new States must have perfect freedom to develop their economic resources as they choose, for a long time to comes, at any rate, their best interests would lie in having a common commercial policy. We trust the necessary atmosphere of goodwill and objective appreciation has by now developed among those who are planning for the future of our common relations. A customs union has appealed itself even to powers like the Scandinavian group who have long enjoyed independent statehood. We do not see why the two newly separated parts of India should not start with such a union and later on extend it to adjoining lands.

NO. 370

AMERICAN CONSULATE GENERAL

Bombay, India, July 23, 1947

UNCLASSIFIED

SUBJECT: Transmitting Item from Times of India Reporting Speech by S.G. Shah on India's Imports from Pakistan.

1—1055

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to enclose, as of possible interest to the Department, five copies of a news item from the Times of India of July 22, 1947 reporting a speech made at the second quarterly meeting of the Central Committee of the All-India Manufacturers' Organization by the Vice President of the Organization, Mr. Sankalchand G. Shah. It will be recalled that Mr. Shah was among the members of the All-India Manufacturers' Organization delegation which toured the United States in 1946.

The thesis of Mr. Shah's talk was that Pakistan will enjoy for some time to come a favorable trade balance while India, on the other hand, will have a considerable adverse trade balance. Mentioning jute, raw cotton and food grains as the principal imports into India from Pakistan Mr. Shah states that the latter will be dependent on the former for the coal, iron and steel and manufactured products in which India predominated. Mr. Shah cites figures on factory location in India to support his contention that the India Union will have the preponderance of manufacturing enterprizes.

The speaker urges that India's foreign exchange resources be used to the best advantage and advocates that the import of some consumer goods and nonessential items should be restricted. Government's recent import restrictions are termed by Mr. Shah as "more or less satisfactory". Since it is known that Mr. Shah is an advocate of relaxed export controls it is presumed that the word omitted from the last sentence in the clipping enclosed has the

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INTERNATIONAL TRADE POLICY

AIR MAIL

Despatch no. 370,
July 23, 1947,
Bombay, India.

has the same connotation as 'relaxed'.

Respectfully yours,

John J. Macdonald

John J. Macdonald
American Consul General

Enclosure:

Article from the Times of India,
dated July 22, 1947, entitled
"India's Imports from Pakistan"

800
C.D. WITHERS:df

Original and hectograph to the Department

Copies to:

American Embassy, New Delhi.
American Embassy, London.

UNCLASSIFIED

TIMES OF INDIA, July 22, 1947

India's Imports From Pakistan

JUTE & FOOD GRAINS

The Dominion of India would have to import jute and food grains from Pakistan, said Mr. Sankalchand G. Shah, Vice-President of the All-India Manufacturers' Organisation, at the second quarterly meeting of the Organisation's Central Committee in Bombay on Sunday.

Of these two categories of imports, Mr. Shah said, food grains deserved closer consideration, "since the Indian Union will have to accept for a long time whatever surplus food Pakistan can spare."

"According to information available at the moment, Western Pakistan enjoys a surplus of one and a half millions tons of food grains a year, which would make half to one million tons availabie for the Indian Union, the rest being required to meet the deficit in Eastern Pakistan," Mr. Shah observed.

"As regards jute, it is well to remember that whereas the major portion of jute raised comes from East Bengal—1.4 million tons—West Bengal is also raising jute of about 120,000 tons, which is just sufficient for the requirements of the Indian Union.

"As for the exports of the Indian Union to Pakistan, cotton textiles and coal will hold the field for quite a long time. It is estimated that Pakistan will require every year about two and a half million tons of coal both for its railways and other uses. And for most of the needs for cloth of the Pakistan population, the Indian Union will be the chief supplier for many a year to come.

FAVOURABLE BALANCE

"All the same, according to the preliminary calculations of our economists, Pakistan will enjoy a favourable balance of payment to the tune of about Rs. 18 crores. The Indian Union, on the other hand, will have to face an unfavourable balance to the extent of Rs. 110 crores, chiefly due to its food shortage."

Mr. Shah said that while Pakistan undoubtedly was in a more favourable position in regard to the production of food grains and some raw materials like raw cotton and raw jute, the Indian Union was better placed in respect of big industries like cotton textiles, jute, iron and steel, cement, paper, chemicals, glass and other industries.

According to statics collected in 1939-40, Mr. Shah said, the number of factories located in India and Pakistan were: cotton mills—380 in India and nine in Pakistan; jute mills—108 in India and nil in Pakistan; sugar mills —156 in India and 10 in Pakistan; iron and steel factories—18 in India and nil in Pakistan; cement—16 in India and three in Pakistan; paper—16 in India and nil in Pakistan; glass—77 in India and two in Pakistan. Thus, while India had 771 factories of seven major industries, Pakistan had only 24.

Mr. Shah urged that the best possible use of India's foreign exchange resources should be made by restricting the import of some consumer and non-essential goods. The recent revision of the import policy of the Government was more or less satisfactory, but the restrictions on the export of India's manufactured goods had to be

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

INCOMING TELEGRAM

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Rec'd December 5, 1947
10:21 a.m.

FROM: Karachi

TO: Secretary of State

NO: 195, December 5

FOR COMMERCE BARKMEIER

Reference IT 1020.

Pakistan permits transhipment to Bombay as local cargo only after payment of customs duty in Karachi. Understand India permits reverse shipments under same condition. No payment double duties involved. Sind Government, however, prohibits export certain essential products. Report follows.

LEWIS

MRN:FAE

DEPARTMENT OF STATE
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UNCLASSIFIED

NO. 258

EMBASSY
AMERICAN ~~CONSULATE~~

Karachi, Pakistan, December 15, 1947

SUBJECT: Refusal of Pakistan Government to Allow Transshipment to Bombay of Goods Landed in Karachi on Consignments to Lahore and Karachi.
1—1055

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to the Embassy's telegram No. 195, December 5, which was in answer to the Department's instruction of November 20 with attached letter from the Department of Commerce, Office of International Trade, dated November 17, 1947, file IT-1020 (DAK-P) entitled "Refusal of Pakistan Government to Allow Transshipment to Bombay of Goods Landed in Karachi on Consignments to Lahore and Karachi." Enclosed with the letter from the O.I.T. were letters dated October 16 and November 3 from the Gold Leaf and Metallic Powders, Inc., and the Technical Export Corporation, both of New York City, addressed to the Department of Commerce, requesting intervention and assistance in expediting the release by the Pakistan Government of shipments of merchandise which had been landed at Karachi and which were consigned to Indian merchants who had fled from Pakistan to India and who now desire to receive the goods at the port of Bombay.

The Embassy first became aware of difficulties being experienced by Hindu businessmen, formerly importers at Karachi and now residing in Bombay, in having rexported from Karachi to Bombay consignments from the United States, upon receipt of a letter dated October 22, 1947 from the American Consulate General, Bombay. Although the Consulate General mentioned several merchants experiencing difficulties it furnished a complete summarization of the problem of one firm, the Chopra Radio Electric Company, formerly of Preedy Street, Karachi, now at Imperial Cinema Building, Lamington Road, Bombay. It was stated that Mr. Chopra, the proprietor, claimed that the Government of Pakistan had violated the standstill agreement with the Government of India, in refusing permission for re-export of goods to Bombay. Mr. Chopra in a cable to the Technical Export Corporation, New York, in September, informed that firm that as a result of civil

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disturbances in Karachi his office had been moved to Bombay. He therefore requested that his goods be sent on to the port of Bombay. The Technical Export Corporation then wired the shipping agents in Karachi instructing that Mr. Chopra's goods should remain on board the ship and discharged at Bombay. The shipping agents refused to do this, explaining that the Government of Pakistan had ordered all shipments manifested for Karachi not to be cleared for reshipment to Bombay nor to be permitted to remain on ship enroute to Bombay without properly clearing through the customs at Karachi. Further complicating the matter, a letter from the shippers in Karachi to Mr. Chopra stated that (a) the Government of Pakistan would not allow the export of certain goods, including radios, and (b) that the Province of Sind Essential Commodities Control, Second Amendment Ordinance, 1947, prohibited the export of several commodities among which radios (not personal radios) were included.

In a letter to the Consulate General, Bombay, dated November 5 the Embassy wrote as follows:

"A representative of the Embassy was informed yesterday in an informal conversation with the Assistant Export Trade Controller, Karachi, that once import duty has been paid on goods which have arrived in Karachi, such goods may be reshipped to Bombay as local cargo and will be permitted to enter at Bombay without payment of duty. This, stated the Assistant Export Trade Controller, is a part of the standstill agreement between the Dominion Governments and there should be no trouble occasioned by businessmen up until March 1948, in having imported goods transshipped to Bombay after payment of import duty here."

The Indian Trade Journal issue of November 13, 1947, carried an item on page 272 under the heading "India-Pakistan Customs Arrangement" which gives the Indian side of this arrangement. This press note stated:

"Goods shipped from India to Pakistan and vice versa are exempt from customs duties, according to an arrangement between the two Dominions. In implementation of this understanding, the Government of India, states a Gazette of India Extraordinary, dated October 29, 1947, has decided that all goods imported from or exported to a port in Pakistan shall be treated as goods imported from or exported to a customs port in India.

"These facilities do not, however, extend to goods first imported into Pakistan, without payment of duty, from any country other than India and then shipped to an Indian port.

"Reciprocal action, it is understood, has been taken by the Government of Pakistan."

Shortly thereafter the Embassy came into possession of a Government of Sind press note dated October 21, notifying the general public that the export of certain essential commodities is prohibited. A copy in hectograph of this press note is attached to this despatch. It should be noted that radio equipment, fountain pens, watches and clocks which are discussed in the letters enclosed with the O.I.T.'s letter of November 17, are not

included on this list.

A representative of the Embassy called upon the Director of Food and Civil Supplies, Sind Province, to discuss the Sind prohibition of export of essential commodities and was informed that the prohibition was designed by Sind Government to prevent the taking from the Province of essential commodities by non-Muslim evacuees who, insofar as could be ascertained by the Government, have no reason whatever for leaving Sind Province. It was explained that although the Government had repeatedly announced its intention to protect minorities and although no disturbance of any note had occurred in the city, the exit of the minorities, nevertheless, continued to such an extent, that taking with them of essential commodities listed in the Press Note constituted a serious menace to the economic well being of the Province. The Director of Food and Civil Supplies, Province of Sind, informed the Embassy's representative further, that persons who desire to export or re-export essential commodities to India from Karachi or Sind Province should make application to the Sind Government, Public Works Department, Karachi, or to the Director of Civil Supplies, Sind, Department of Food and Civil Supplies, Karachi, for permission to export the desired articles. This permission, the Director stated, would be given if it were established that the goods were not essential commodities taken by an evacuee.

Respectfully yours,

Charles W. Lewis, Jr.,
Charge d'Affaires, a. i.

Enclosure:

Press Note

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Copies to:

American Consulate General, Bombay
American Consulate General, Madras
American Consulate General, Calcutta
American Consulate General, Lahore
American Embassy, New Delhi

GOVERNMENT OF SIND
DEPARTMENT OF PUBLICITY & PUBLIC RELATIONS
Napier Barracks Block No. 13, Karachi

Press Note No. P-297 dated 21st October 1947 - EXPORT PROHIBITIONS

It is notified for information of general public that the export of the following essential commodities is prohibited.

1. Building materials e.g.cement, electric fans, bulbs, other electric goods, asbestos sheets, emery wheels, bricks, enamels, door and window fittings, alldrops, hinges, handles, all materials mentioned in Schedule II attached to the Iron & Steel Control Order, 1941, and any other commodity required for building and furnishing purposes.
2. Sanitary goods and fittings.
3. Deodar.
4. Hume pipe.
5. Galvanised iron pipes.
6. Cast Iron Pipes.
7. Paints
8. All raw and new fabricated ferrous (iron materials) and mild steel section of all description and plates including barbed wire not covered by Government of India Act XXIV of 1946.
9. Agricultural machinery and implements.
10. Road making machinery.
11. Steam engines, oil and diesel engines, electric motors, generators, transformers and switchgears.
12. All machinery including motor cars, motor trucks, motor cycles, cycles except sewing machines in actual use.
13. Varnishes
14. All raw and new fabricated non-ferrous material excluding gold and silver.
15. Rubber goods excluding apparel, boots and shoes.
16. Teakwood.
17. All surgical appliances and apparatus.
18. Optical spectacles lenses, ground to prescription or unground, including glass for the manufacture thereof, and ready-made spectacles excluding spectacles made of plain white or coloured glass and optical glass and optical spectacles in use.
19. Gunny bags, Hessian cloth and jute twine - new or used except which actually used in packing.
20. Caustic soda.
21. Woollen articles and piece goods.
22. Edible oils and vegetables oil products including animal ghee.
23. Pharmaceutical drugs as specified in the British Pharmacopoeia.
24. Industrial & heavy chemicals.
25. Ground nuts and kopra and raw ground nut & kopra oil.
26. Paper including stationery articles made from paper.
27. Unsewn cotton cloth.
28. Sewing thread and yarn of all description.
29. Soap of all descriptions.

Among the above are listed articles subject to restrictions of various kinds previously imposed by orders of Sind Government or Central Government. These remain unchanged.

Where, by reason of temporary surplus or lack of need, requirement of ordinary trade, or transit trade, movement of the commodities listed above to places outside Sind is required, permits will be issued in respect of items 1-16 by the UNDERSECRETARY TO GOVT., P.W.D. KARACHI and in respect of items 17-29 by the DIRECTOR OF CIVIL SUPPLIES, DEPTT. OF FOOD & CIVIL SUPPLIES, KARACHI.

It is hoped that this list of prohibited articles will be exhaustive and that, in future, it will not be necessary to add to the list but it may be possible to remove items from it; but on the other hand, if abnormal movement of commodities not shown in the list, at any time, threaten Sind with shortage of

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any essential commodity not at present included by reason of its being in ample supply, Govt. of Sind may find it necessary to include such items in the Schedule. There will be no restriction on the movement of above commodities within the Province of Sind.

Sd/
DIRECTOR OF PUBLICITY & PUBLIC
RELATIONS OFFICER, SIND.

250/27-10-47

CONFIDENTIAL

DC/R

DEPARTMENT OF STATE

Memorandum of Conversation

DATE: December 16, 1947

SUBJECT: Policy Toward Trade Agreements and Commercial Treaties in Pakistan, India, and Burma

PARTICIPANTS:
SOA: Ambassadors Grady, Alling, Huddle
ITP: Messrs. Moline and Seltzer
PED: Mr. Eakens, Mr. Breakey
ILH: Mr. Sullivan
CP: Mr. McClure
IR: Mr. Montgomery

COPIES TO:
Ambassadors Grady, Alling and Huddle
SOA
American Embassies at Karachi, New Delhi, Rangoon
American Mission, Kabul
Consulates General at Bombay, Calcutta, Madras, Colombo, and Lahore

DIVISION OF SOUTH ASIAN AFFAIRS
JAN 14 1948
Department of State

File E.T. W.n.

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On December 16, 1947 a conference was held between the United States Ambassadors to India, Pakistan, and Burma, and representatives of State Department Agencies concerned with commercial policy.

Mr. Moline opened by announcing that ITP expected both Pakistan and India to ratify recently negotiated Trade Agreements although nothing definite had been learned from either country. He said that approval by India was expected by the end of March. Replying to a question by Mr. Grady, he stated that the delay was caused by the necessity of having the agreement ratified by the Indian Constituent Assembly which would not meet again until February.

Mr. Seltzer reported on the present status of negotiations with Pakistan and India of treaties of friendship, commerce and navigation. Negotiations have been delayed, he reported, by the fact that a new draft of a commercial treaty was being prepared by ITP, and that while the draft was now ready, certain problems of relating the draft to the International Trade Organization were still to be ironed out.

Mr. Grady

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Mr. Grady expressed the thought that a draft should be presented to the Indian Government as quickly as possible. He stated that he believed there was a fair chance for a customs union between India and Pakistan, possibly through the extension of their present stand-still agreement, and that it might help both countries to get together if they both had commercial treaties with the United States. In discussing the question of gaining concessions for American capital in such treaty, Mr. Grady stated that the Indian Government was relaxing its position in this matter, and had already made some concessions on taxation matters toward American capital. He said that the Indians were anxious to obtain American capital at the present time, and that for this reason, too, this was a good time to put through a treaty. He added that although there were signs that India was interested in making concessions to American capital, there were some discouraging signs, such as the present difficulties of the United Press in India.

In answer to a question on possibility of admitting American oil interests under such a treaty, Mr. Seltzer replied that the treaty draft provided only for most favored nation treatment on minerals because that is the only type of treatment which we can reciprocate.

In the matter of a commercial treaty with Pakistan, Mr. Moline stated that the Government of Pakistan was very much interested in a treaty, but he wondered whether this interest arose primarily from a desire to obtain a loan in the United States. He said that their eager replies on the subject of a treaty have been followed by the announcement that financial experts would leave immediately to discuss a loan. Mr. Moline expressed the opinion that Pakistan may be less sensitive on foreign investment rights than India.

Mr. Seltzer, in conclusion, stated that he would make every effort to have a draft ready for the Indian Government by the middle of January, and that if such draft were ready, he could forward them to Pakistan and Burma at the same time.

Mr. Moline said that he could foresee no trouble in securing agreement from India and Pakistan on the ITO Charter.

Mr. Montgomery

Mr. Montgomery led a discussion of the jute question. He said that the main problem was Pakistan's export tax on raw jute. Mr. Grady explained this matter by saying that the Pakistan Government wanted a split of the revenue on jute, but that the Indians were "high-handed" in their treatment of the matter, and Pakistan then resorted to the export tax. The Indians have accused Pakistan of violating the stand-still agreement and have considered retaliatory taxes on sugar, coal, and other items. Mr. Grady said that these problems were being discussed in meetings between the two groups and that some solution may be worked out.

Mr. Montgomery discounted possibility of India's growing any greater proportion of raw jute as a retaliatory measure toward Pakistan since only 26% of the total jute crop is grown in West Bengal. Mr. Grady said that the people in the trade in Calcutta feel they will have to continue to get their raw jute from East Pakistan. Mr. Montgomery added that the present processing in India will probably have to continue since jute machinery is very expensive and is now on a four to five year delivery schedule. He further added that jute producers will be required to watch rising prices since cotton and paper may take part of the jute market in this Country if the price goes any higher.

There was a brief discussion of the prospects of India developing a merchant marine. It was Mr. Grady's opinion that their present attempts were abortive and that they would not be extended into more than the coastal and inter-coastal trades in the foreseeable future.

Transmitted to Field (Form DS-4)
TO: Karachi, New Delhi, Rangoon, Kabul, Bombay, Calcutta, Madras, Colombo, Lahore
FM: Usis
INFO: NEA By: JGS Date: Dec 23, 1947

SOA: DDNewsom/vvn-12/18/47

UNCLASSIFIED

NO. 268

EMBASSY
AMERICAN ~~CONSULATE~~

Karachi, Pakistan, December 23, 1947

SUBJECT: Refusal of Pakistan Government Officials to Permit Transshipment from Karachi to Bombay of Goods Belonging to U. S. Firm.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to the Department's instruction of December 4 to which was attached a letter from the Department of Commerce, Office of International Trade, file IT-1020 (DAK-P) dated November 28, 1947, on the subject: "Refusal of Pakistan Government officials to permit transshipment from Karachi to Bombay of goods belonging to U.S. firm." Attached to the letter from the Office of International Trade were three letters dated November 4, 6, and 7, respectively, addressed to the Department of Commerce, New York office by the Solar Manufacturing Corporation, North Bergen, N. J., concerning goods consigned to the Chopra Radio Electric Company, which firm has moved from Karachi to Bombay and which alleges that because of the Pakistan Government's restrictions, it is unable to have the consignment transshipped to Bombay. Reference is also made to this Embassy's despatch No. 258 of December 15, 1947 in answer to the Department's instruction of November 20 concerning similar consignments one of which also involved the Chopra Radio Electric Company. In this despatch the Embassy stated that once import duty has been paid on goods which have arrived in Karachi such goods may be reshipped to Bombay as local cargo and will be permitted to enter Bombay without payment of duty.

The Solar Manufacturing Corporation in its letter of November 4, referred to above, has stated that "it appears as though the authorities at Karachi are simply creating obstructions which for one reason or another may possibly enable them to confiscate this shipment." The Embassy's representative in a discussion today with the manager of the Mercantile Bank of India, Limited, Karachi, which holds the Solar Manufacturing Corporation's draft for collection from the Chopra Radio Electric Company, has learned that as early as September 24, 1947, the bank informed Chopra Company that the consignment in question could be cleared at Karachi and transshipped to Bombay whenever the appropriate import license was produced. Although the Chopra Company through its agents

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AIR MAIL

UNCLASSIFIED

Karachi, Pakistan
December 23, 1947
Despatch No. 268

agent, Chimanlal Desai and Company, Gool Mansion, Jomhi Street, Bombay, India, has several times stated that the import license would be forwarded to Karachi for this purpose to date the license has not been received. As late as December 9 the Mercantile Bank has again reminded the Chopra Company, through Chimanlal Desai and Company that nothing further can be done until the import license is received.

It is suggested that the Solar Manufacturing Corporation be informed.

Respectfully yours,

Charles W. Lewis, Jr.,
Charge d'Affaires a.i.

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F.D.Leatherman/dxm

Original and hectograph to the Department
Copy to American Consulate General, Bombay

UNCLASSIFIED

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

No. 42

AMERICAN EMBASSY
New Delhi, India, January 14, 1948

UNCLASSIFIED

Subject: Future Pattern of Indo-Pakistan Trade

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

1/ I have the honor to enclose a copy of an article appearing in the Annual Review Number of Commerce, December, 1947, regarding the Future Pattern of Indo-Pakistan Trade.

Before partition of the country, trade between the regions now known as Pakistan and India consisted in the exchange of raw materials of the former for manufactures of the latter. It is argued in the article under reference that Pakistan is more dependent on this exchange than is India.

Although Pakistan might try to pursue a vigorous industrial policy, there are, according to the article, two important limitations on Pakistan's prospects in this regard. One is Pakistan's financial obligation to India, which, on account of Pakistan's share of the uncovered liabilities of the former undivided Government, all of which was provisionally assumed by India, and of the interest and rentals from assets in Pakistan due to their owners in India, will require Pakistan to find enough foreign exchange to pay India from Rs. 40 to 45 crores yearly. As an exporter principally of raw materials Pakistan, it is stated, should be able to earn more than enough foreign exchange to meet this obligation. As a manufacturing country, however, Pakistan does not possess in general the advantages which would enable it to compete to any great extent in world markets.

The second limitation on Pakistan's industrial potential is that, lacking iron resources, Pakistan has no steel industry which is essential to modern industrialization. On the other hand, it is claimed that India is in a position to produce for itself the raw materials which ordinarily are obtained from the territory of Pakistan.

While the article is interesting for the facts which it presents, particularly in respect of Pakistan's financial obligations to India, its comparison of the trade position of

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of Pakistan and India is somewhat distorted in favor of the latter. For instance, no mention is made of India's foreign exchange deficiencies which India's Minister of Commerce pointed out on November 8, 1947 in an address regarding India's export policy, reported in the Embassy's despatch no. 330 of November 13, 1947. He stated that if India is to continue to import essential food and also capital goods, industrial raw materials, and consumer goods to meet minimum requirements, India will, after allowing for sterling releases, interest on the funded part of the sterling balances, and curtailment of non-essential imports, have a deficit in its international balance of payments of about Rs. 100 crores which will have to be met largely by an increase in exports.

India's foreign trade balance, even on private account, failed during the first five months of 1947 to produce any surplus of foreign exchange. India's food deficit, which is being met by Government purchases abroad, constitutes a drain on the present reserves of foreign exchange.

India therefore would seem to be under no less financial compulsion than Pakistan to expand export trade. Pakistan, however, would have a world market for its staple products such as cotton, hides and skins, wool, and probably even jute. It is not certain, on the other hand, that India will be able in the near future to compete on a world wide basis in the sale of manufactures (other than jute), the production of which it desires to promote. It may have to be content with a regional market, of which Pakistan would probably represent a very important segment.

From the point of view of the jute industry, the two Dominions are much like Siamese twins. Severance of the tie might be fatal to both. It is questionable at least whether India could produce raw jute any more readily than Pakistan could raise jute mills or ship the raw material to countries other than India for manufacture.

Respectfully yours,

Howard Donovan
Charge d'Affaires ad interim

Enclosure:
1. Copy of article from
Commerce, 1947 Annual Review Number.

850
RMCarr/reb
Original and hectograph to Department

cc: American Embassy, Karachi
American Consular Offices in India.

UNCLASSIFIED

C O P Y

COMMERCE, 1947
Annual Review Number

- - - - - - - - - - -

FUTURE PATTERN OF INDO-PAKISTAN TRADE

Mutal Understanding Necessary

(Contributed)

Political and social problems apart, the partition of India into two independent States has created a number of economic problems. Nature and geograph, not to speak of its long political history, have made the country into one strong economic unit, but fate has ordained otherwise. The unnatural division, which was forced upon the country, has considerably dislocated its economic structure and disorganised the pattern of its trade and commerce. For the present, the large internal trade carried on between India and the territories comprising the present Pakistan has come to a standstill.

The signs of bitterness which followed partition, culminating in the unprecedented mass migration of the minority community in the East and West Punjabs, are now slowly disappearing, and it may be expected that, within the next few months, normal trade relations will be resumed between the two Dominions. The resumption of trade is inevitable for more reasons than one. Their pattern of economy is interdependent. In the pre-partition period, India used to be supplied with a substantial portion of raw jute and raw cotton from Pakistan. On the other hand, Pakistan was getting many manufactured articles from India, principally cotton textiles, woollen manufactures, iron and steel, toilets and chemicals, and a host of minor articles. Further, both have become neighbours, being connected with a long line of land frontier. Since any longstanding political friendship presupposes a closer economic and trade relationship, it is imperative that there should be lucrative trade between them for mutual benefit, as, for instance, in the case of the U.S.A. and Canada.

This pattern of trade is likely to undergo modifications, now that Pakistan has become an independent Dominion. It is possible that Pakistan might try to pursue a vigorous industrial policy and to transform its agricultural economy into a semi-industrial economy. This process will take time and, in the meanwhile, it will have to export its raw materials such as jute, cotton, raw hides

and

and skins, and wool to India and other countries in order to earn precious foreign exchange resources. This apart, it cannot afford to be isolated from India, because it has to meet a number of obligations to the latter. According to the latest understanding arrived at between the two Dominions, Pakistan has to share 17½ per cent of the assets and liabilities of India. Since India has agreed to shoulder the entire public debt of the undivided country, it will naturally expect Pakistan to honour the repayment of its portion of the liabilities. The financial understanding with Pakistan contemplates repayment of its portion of the debt in 50 equal instalments from 1951 onwards. The latest figure of the public debt of all-India stands at Rs. 2,140 and Pakistan's share on the basis of the above division will come to Rs. 375 crores. In order to discharge this debt in 50 equal installments together with interest, Pakistan will have to pay nearly Rs. 20 crores every year from 1951, the burden of repayment gradually coming down as the final repayment date gets nearer. Hence Pakistan has to export goods and merchandise to the extent of Rs. 20 crores annually on this account alone.

On another account also, Pakistan has to bear a heavy burden unless an amicable understanding on this question is arrived at in the near future. And such concerns the large landed property and other assets held by Indian nationals in Pakistan. The complete mass migration of the minority community from West Punjab to the borders of India has complicated this problem. It is well known that the Hindus and the Sikhs have substantial landed and house property in West Punjab, not to mention factories and commercial concerns. It is computed that, even at a conservative estimate, the excess property left behind by them in West Punjab, after offsetting the share belonging to the Muslims of East Punjab, Delhi, and other places who have chosen the Pakistan nationality, is about Rs. 500 crores. Further, a number of non-Muslim zamindars of East Bengal live in Calcutta and other places in the Indian Union and draw their income from the land property held by them in East Bengal. According to informed circles, the extent of money rentals drawn by them is estimated between Rs. 5 and Rs. 10 crores per annum. Hence the annual rental income from property held by non-Muslims in Pakistan, who have practically migrated to India, may be placed between Rs. 20 and Rs. 25 crores per year.

Thus the payment of interest and rentals, which Pakistan may owe to India on debt and property account, respectively, amounts to Rs. 40 to Rs. 45 crores a year. In order to meet this heavy obligation, Pakistan must

have

have to export as much raw materials and manufactures as possible. Pakistan has vast resources, especially in raw materials, and if it were to develop them carefully, it can doubtless meet not only its obligations but also earn more exchange resources.

West Punjab and Sind have surplus foodgrains, especially wheat and rice. Wheat production in Western Pakistan is placed at about 3 million to 3.5 million tons and the output of rice at 9 lakh tons. It can spare, in a normal year, nearly 7.5 lakh tons of wheat and 3.5 lakh tons of rice. It could further augment its food resources in case it were to expedite the Thal Canal and Mianwali Projects, which are expected to bring in under irrigation nearly 1.35 million acres. The Province of Sind has greater scope for increasing agricultural production, such as of wheat, rice and long-staple cotton, which India badly requires. The contemplated two barrages in Sind are expected to bring in an area of nearly 5 million acres under irrigation. The execution of these projects will take longer years, owing to the migration of skilled non-Muslim engineers from the Province in recent months. However, these projects indicate the agricultural possibilities of West Pakistan and Sind and the capacity of that country to discharge its obligations to India. East Bengal's agricultural potentialities on the other hand, are limited. It is deficit in food resources which has to be supplemented by surplus rice from Sind and West Punjab. The scope for developing its agricultural resources is also limited and, hence, it may not figure as an exporter of foodgrains.

Pakistan's strongest base lies in some of its industrial raw materials, prominent among them being long and medium-staple cottons of West Punjab and Sind, raw jute of East Bengal, raw hides and skins, raw wool, and tobacco. Its raw cotton is being eagerly sought after by India, the U.K., Continental countries, Australia, and China. The U.S.A. is an important purchaser of its short-staple cotton, especially that produced in Sind and in the Chittagong area. During the war period, it was exported to India alone nearly 10 to 12 lakh bales of cotton per year. Although during the current year its exports are likely to show a marked decline, they are likely to revive within the next two or three years. Meanwhile, Pakistan is reported to be taking active steps to establish more cotton mills within its own territory. The pace of progress in this direction is likely to be slow, mostly due to difficulties inherent in the importation of textile machinery and the absence of power resources. Even if it were to develop its cotton textile industry, it could maintain the present

scale

scale of raw cotton exports, should it bring more land under cotton. It has scope for replacing East Africa in India's cotton import trade, provided Sind is able to develop its latest strain (41/4) further.

The Pakistan Government should, however, be very careful in its industrial development programme. It would have to give priority to those industries, the products of which it can consume within its territories. Even in case its manufactures become costly because of high machinery costs, it can raise its tariff rate in order to protect its nascent industries. Its competitive capacity to export manufactured articles will, in any case, be limited, and may not become a profitable or practical proposition for many years to come. Hence it cannot overstep the limit in regard to the development of its cotton textile industry.

The golden fibre of East Bengal is an industrial raw material on which Pakistan has been banking too much, especially since the partition. It would, however, appear to be not conscious of the limitations of a monopoly article. If Pakistan were to take a long-range view, it would be very liberal in its supplies at reasonable prices and not impose unwarranted restrictions on exports. The Indian jute mills are the best customers of this product at present. Since they are not able to get adequate supplies of raw jute in recent months, efforts are being made, with the technical experience of the Indian Central Jute Committee, to grow a sufficient quantity of raw jute in the Indian Union itself. If the efforts in this direction were to be crowned with success, they would dislocate the entire economy of East Bengal, as raw jute forms an important cash crop in that Province. It is, therefore, in the interest of East Bengal not to hamper exports of raw jute from its territory. Great publicity is being given about the plans for the development of the jute mill industry in East Bengal with foreign aid. Since the new mills so erected at the present high cost of machinery and building materials will have to compete with those of foreign countries, which are more efficient and organised, it is doubtful whether the proposal will at all be a sound financial proposition. It will be remembered that the present capacity of jute mills in India and foreign countries are more than adequate to meet the entire world demand. However, East Bengal can develop jute presses to some extent and change the channel of trade from Calcutta to Chittagong.

In the near future Pakistan may develop its tanning industry with the help of the personnel who have migrated from the western districts of the United

Provinces,

Provinces, and send a portion of such tanned hides to India. India may not be requiring raw wool produced in Pakistan, because it has long been importing fine wool from Australia. However, the Karachi wool trade will be adversely affected by the division, as a large portion of wool exported from Karachi came from Bikaner, Jaipur, and the Kangra area (East Punjab). Pakistan produces nearly one-third of India's tobacco and can maintain a good trade relationship in this sphere. It has a monopoly in the production of cigar wrapper leaves, but should not take advantage of this to charge high prices, lest the Indian Union should develop a suitable substitute. It can also develop trade in a number of miscellaneous articles such as betelnuts, which are produced in large quantities in East Bengal, fruits and vegetables (produced in West Punjab and Sind), and milk and milk products, as West Punjab has scope for developing a good dairy industry. In due course, Pakistan can establish a medium-scale chemical industry taking advantage of the salt deposits of West Punjab and develop a profitable trade in this direction. It can also supply gypsum to the Sindri fertiliser industry of Bihar. Soda ash now manufactured in Khewra by the Alkali and Chemicals Company is another item that Pakistan can send to India.

The Indian Union's trade with Pakistan will consist of semi and manufactured articles to a predominant extent. The biggest item at present will be cotton piecegoods, which, however, will gradually decline as Pakistan begins to establish a full-fledged cotton textile industry of its own. Pakistan may also establish a few jute mills and hence India's trade in jute manufactures with Pakistan may at best be a temporary phenomenon. However, trade in iron and steel manufactures will continue for a long time. For Pakistan is yet to find workable iron ore deposits and will have to import iron and steel from India to a large extent. Coal is yet another important item which Pakistan will be requiring for a number of years. Similarly, the West Punjab town and industries will have to take electric power from Mandi in East Punjab. For sugar and vegetable oils, its dependence on the Indian Union is substantial. India can also have trade in spices, such as cardamom, turmeric, etc. For many years, Pakistan will have to import from India consumer articles, such as glass and glassware, paper and stationery, matches, soaps and toilet requisites, small and medium machine tools and hosiery articles.

Taking a broad picture, India's dependence on Pakistan's raw materials is not so extensive as that of Pakistan on India's manufactured goods. In case the

Indian

Indian Union should execute all the irrigation projects now under consideration, it would bring an area of nearly 25 to 30 million acres under food and cash crops. This would make it possible for India to grow the desired long-staple cotton in the Tungabhadra area, the Tapti Valley area, Mysore, and South India. Its import of raw jute will also come down to the minimum, say 20 lakh bales as against 60 lakh bales as at present. In tobacco and other items, it could make itself self-sufficient. It will not be so in the case of Pakistan, as it lacks in many essential industries and raw materials which generally make any nation a great industrial and political power. The absence of iron and steel industry, which is a sine quo non for the development of other industries, for instance, will be a great handicap and is bound to arrest its progress in the industrial sphere. At best, Pakistan could have light industries producing consumer goods and should be content to import a number of manufactured articles either from India or foreign countries. But the question is: will it be content to do so? --

---oOo---

Form DS-14
6-21-45

DEPARTMENT OF STATE
WASHINGTON

INTERDEPARTMENTAL REFERENCE

DATE April 20, 1948

RESPECTFULLY REFERRED TO

CP - MR. SPIEGEL

RE:

For Action —

WRITER ☐ HAS ☐ HAS NOT BEEN INFORMED OF THIS REFERENCE

COMMENTS:

It would be appreciated if reply could be cleared through SOA and NEA.

J S Earle

SIGNATURE

SOA

DIVISION

DEPARTMENT OF STATE

Office
~~Division~~ OF FAR EASTERN AFFAIRS

4-19-48

NEA - Mr. Henderson

Attached is a letter from Mr. J. Bramhall, Jr., and a copy of my reply which is self-explanatory.

WWB

DIVISION OF SOUTH ASIAN AFFAIRS

APR 21 1948

Department of State

FE:WWButterworth:mss

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April 16, 1948

Reply drafted 23 Apr 48

DIRECTOR
APR 20 1948
MR. HENDERSON
DEPARTMENT OF STATE

Mr. W. Walton Butterworth
Director, Office of Far Eastern Affairs
Department of State
Washington, D. C.

Dear Mr. Butterworth:

Since the partition of India into two independent countries and the resulting disturbances, many exporters have been facing difficulties because their shipments have been held up by the Customs officials in either India or Pakistan even though such shipments were in transit.

For instance, we are today in receipt of a letter from one of our members stating that in September, 1947 they made a shipment to their clients, a Hindu concern located in Lahore, which as you know is now within the country of Pakistan. While the merchandise was afloat this firm, because of religious and political conditions, was forced to close its offices in Pakistan and conduct its business only from its Indian offices. Although the United States exporter attempted to have the shipment re-routed to Bombay, unfortunately the merchandise had already been placed in the custody of the Karachi Port Trust, a Pakistan agency. This agencyhas evidently decreed that all cargo arriving in Karachi must be retained until the duty is paid by the ultimate consignee.

Although this merchandise is not destined for Pakistan and should, therefore, not be dutiable, our member's clients in India are even willing to pay the Pakistan duty in order to obtain custody of the merchandise. Our member firm advises that they have twice written to the American Embassy in Karachi but have received no reply.

We realize that the Embassy and the State Department have probably received many similar complaints and we further understand that the governments of India and Pakistan are conducting negotiations looking to the amicable solution of these difficulties. We also understand that the Embassy and the State Department are following this matter closely.

In order that we may advise our many members who are concerned with this question, we would appreciate your advising us as to the status of this situation. Thanking you in advance for your kind cooperation and looking forward to your early reply,

Yours sincerely,

J. Bramhall, Jr.

J. Bramhall, Jr., Manager, Export Division,
World Trade Department

JB:BP

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DEPARTMENT OF STATE

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April 19, 1948

Dear Mr. Bramhall:

I have today received your letter of April 16, 1948, regarding customs difficulties arising out of the separation of Pakistan from India.

Inasmuch as both these countries fall within the province of the Office of Near Eastern Affairs, I have passed on to its Director, Mr. Loy Henderson, your letter for reply.

Faithfully yours,

W. Walton Butterworth
Director for Far Eastern Affairs

Mr. J. Bramhall, Jr., Manager,
Export Division, World Trade Department,
Commerce and Industry Association of
New York, Inc.,
233 Broadway, Woolworth Building,
New York 7, New York.

FE:WWButterworth:mss

In reply refer to
CP

My dear Mr. Bramhall:

Your letter of April 16, 1948 concerning the difficulties experienced by American exporters in shipping goods to India and Pakistan since partition, has been referred to me for further reply.

Both this Department and the Department of Commerce have been concerned with the problem raised in your letter, namely the assessing of duty by both Pakistan and India on goods entering India via Pakistan. There is no agreement in force between the United States and either of these countries which covers this problem, since the General Agreement on Tariffs and Trade, which provides that goods in transit through a country shall be exempt from duties in that country, has not yet been brought into force by India or Pakistan. As you mention in your letter, the governments of India and Pakistan have been conducting negotiations with a view to working out an amicable solution of the problem, but so far these negotiations have not been successful. Both this Department and the Department of Commerce are of course following these negotiations carefully and will make every effort to encourage the reaching of a satisfactory solution.

The Office of International Trade of the Department of Commerce has had considerable correspondence with traders regarding this matter and is endeavoring to keep traders fully informed of new developments or information

Mr. J. Bramhall, Jr., Manager,
Export Division, World Trade Department,
Commerce and Industry Association of
New York, Inc.,
233 Broadway, Woolworth Building,
New York 7, New York.

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A SC on

on the problem. If you have not already done so, therefore, I suggest that you get in touch with the Office of International Trade, either in Washington or at its Regional Office in the Empire State Building, New York.

In your letter you also refer to letters written by one of your member firms to the American Embassy at Karachi, to which no replies have been received. It is my understanding that the Embassy has made every effort to reply through the Department of Commerce to all inquiries concerning this problem, but if you will inform the Office of International Trade of the name of the firm, an inquiry can be made to the Embassy at Karachi regarding this correspondence.

Sincerely yours,

Merrill C. Gay
Acting Associate Chief
Division of Commercial Policy

CR
R 28 1948 P.M.

CP:GCSpiegel:lem
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SOA

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

OFFICE OF INTERNATIONAL TRADE POLICY

1948 MAY 2 AM 10 24

No. 392

RESTRICTED

AMERICAN EMBASSY

New Delhi, India, April 20, 1948

645.45F31/4-2048

Subject: Inter-Dominion Agreement on Treatment of Minorities and on Matters relating to Trade and Communications.

RECEIVED
DEPARTMENT OF STATE
1948 APR 30 AM 11 17

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to refer to Embassy's despatch No. 389 of April 20, 1948 regarding the meeting at Calcutta on April 15, 1948 of an Inter-Dominion Conference on the problem of minorities and trade and to report that an agreement has been reached and was announced on April 19, 1948.

The results of the agreement are indicated as follows:

1. The Governments of the two Dominions agree that the mass exodus of minorities is not in the interest of either Dominion and that they will take steps to discourage such exodus and to create such conditions as would encourage and facilitate the return of evacuees.

2. Each Dominion assumes responsibility for the protection and fair treatment of minorities within its own territory.

3. Propaganda urging the amalgamation of Pakistan and India or any parts thereof or giving rise to friction or alarm is to be discouraged.

4. The Governments of East and West Bengal will provide legislation for the setting up of evacuee property management boards, if demanded, for the management of properties of evacuees.

5. There will be regular meetings between representatives of the two Dominions and of East and West Bengal to see that the agreement is being carried out.

6. It was

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6. It was agreed that other conferences should be held to deal similarly with the minority problem in other areas where there is, or has been, or threatens to be, a large exodus of minorities.

7. Agreement was reached on various matters for facilitating:

(a) the frontier movement of persons and their personal effects

(b) border traffic

(c) in transit trade

(d) transportation

8. It was agreed that trade barriers between the Dominions should be reduced to a minimum and that the Dominions should in the near future conclude an agreement or agreements for the mutual supply of commodities essential to each other's economy.

9. It was recommended that the question of postal, telegraph, and telephone rates as well as the question of expediting the movement of mail between the Dominions should be examined on an Inter-Dominion basis by experts.

When announcing the agreement at a Press conference, the leaders of the Indian and Pakistan delegations stated: "We do not claim that the agreement we have reached is all-embracing and is all that is desired, but it has been reached with the best of goodwill and without any mental reservations.".

The Statesman of April 20, 1948 regards the agreement with enthusiasm and comments in part as follows:

> "If carried out in the spirit as well as the letter, the Calcutta inter-Dominion agreement, which Mr. K. C. Neogy correctly regards as one of the most important events since partition, may lead to improvement over the whole field of relations between India and Pakistan. Differences have been much advertised; less attention has been given to the already not inconsiderable measure of accord. When the conference met, the outside atmosphere was unhappily surcharged with emotion; that and the inherent complexity of the issues made some doubt its success. Yet goodwill based on realization of common interests has triumphed; equally important, the agreement is plainly regarded as a stepping stone to fruitful understandings over similar problems in other parts of the sub-continent."

Although the agreement under reference may constitute a welcomed expression of goodwill between high Government officials of India and Pakistan and may promise a marked improvement in Inter-Dominion relations, it is nevertheless vague and indefinite. It is somewhat suggestive of a statement of objectives, resolutions, and recommendations and lacks for the most part specific machinery for implementation. Other Inter-Dominion agreements having these characteristics, in particular those relating to the property of refugees, have not proved very satisfactory. The importance of the present agreement will depend on how effectively the two Dominions follow through with action.

Respectfully yours,

Henry F. Grady

Enclosure

(1) 5 copies of Text of Inter-Dominion Pact

631

RMCarr/sfc

Original and hectograph to Department.

Copy to: American Consulates General, Bombay, Calcutta, Madras.

TEXT OF INTER-DOMINION PACT

The following is the text of the inter-Dominion agreement:

Whereas the Governments of the two Dominions agree that mass exodus of minorities is not in the interest of either Dominion and they are determined to take every possible step to discourage such exodus and to create such conditions as would check mass exodus in either direction and would encourage and facilitate, as far as possible, return of evacuees to their ancestral homes, the two Dominions agree as follows:

SECTION I: (1) The responsibility for protecting the lives and property of the minority communities and for ensuring that they receive justice and that their civic rights are fully safeguarded rests on the Government of the Dominion in which the minorities reside.

(2) In Pakistan and in India every citizen shall have equal rights. opportunities, privileges and obligations and there shall be no discrimination against the minorities whose cultural and religious rights shall be fully safeguarded. (NB: "Cultural' rights include "educational' rights).

(3) Any propaganda for the amalgamation of Pakistan and India, or of portions thereof, including East Bengal on the one hand and West Bengal or Assam or Cooch Behar or Tripura on the other shall be discouraged. (N.B: The word propaganda shall be taken as including any organization which might be set up for the purpose).

(4) Both Governments recognize that wholehearted co-operation of the Press is essential for creating a better atmosphere and, therefore, agree that every effort should be made in consultation with the representatives of the Press wherever possible to ensure that the Press in each Dominion does not:

(a) Indulge in propaganda against the other Dominion;

(b) Publish exaggerated versions of the news of a character likely to inflame, or cause fear or alarm to the population, or a section of the population, in either Dominion;

(c) Publish material likely to be construed as advocating a declaration of war by one Dominion against the other or suggesting the inevitability of war between the two Dominions.

Inquiry Into Complaints

(5) Complaints from the minorities in both the Dominions that action is not taken on their reports against oppression or unfair treatment, should be promptly and fairly looked into and early remedial measures taken.

(6) Both in East and West Bengal there shall be set up a Provincial Minorities Board and under the provincial board, district minorities boards for protecting the interests of the minorities, removing fear and inspiring confidence. These boards shall ensure that the grievances of the minorities are promptly brought to the notice of the authorities and are satisfactorily and promptly dealt with.

It is suggested that the Provincial Minorities Board should be composed of five members, three of whom at least should belong to the major community to be selected by the members of the provincial legislature belonging to the minority communities. The remaining two shall be persons of influence and shall be nominated by the provincial government. The District Magis-Magistrate shall be the chairman of the District Minorities Board and a Minister to be nominated by the provincial Government shall be the chairman of the Provincial Board.

(7) The two Dominions and tneir provincial Governments shall declare and make it widely known to their officers and other employees that any Government servant proved to have been guilty either of dereliction of duty in protecting the lives and properties of the members of the minority community, or of direit-members of the minority community, or showing prejudice against the minority community in the discharge of his duties, shall receive exemplary and deterrent punishment.

Severe Action

(8) Severe action shall be taken against any person, or group of persons cr,eating or attempting to create any apprehension or fear or insecurity or alarm in the minds of the minority communities.

(9) The two Dominions shall take adequate steps to remove complaints regarding:

(a) Discrimination in the grant of export licences and railway priorities to members of the minority community as such;

(b) To curb all tendencies towards an economic boycott of minorities or strangulation of their normal economic life.

(10) The two Dominion Governments shall request their respective provincial Governments to observe the same principles in their own sphere.

The Governments of East and West Bengal will provide legislation providing for the setting up of Evacuee property Management Boards in districts or areas from where a substantial exodus has taken place. These Boards will be set up only when it is established that there is a demand for their establishment.

These Boards will assume management of properties only on the definite request of their owners. Their functions will be of a managerial character and they will not have the power to alienate the property entrusted to them for management. These Boards shall be composed of members of the minority community.

(NB: "Evacuee" shall be defined as a person who has left the province in question on or after June 1, 1947 and who declares his intention to return as soon as normal conditions are restored).

A committee of officers will be appointed immediately by the two Governments to draw up detailed proposals for the necessary legislation.

Further Meetings

SECTION II: To ensure the implementation of this agreement, the representatives of the two Dominions shall meet at least once in two months so as to bring to the notice of each other any instances of the non-observance of the above principles in either Dominion. In the case of East and West Bengal, where the situation requires more urgent measures, the Premiers of the two provinces shall meet once every month for the same purpose, and in :ddition, to begin with, the Chief Secretaries of the two provinces shall, meet once a fortnight. Whenever matters concerning Assam, Cooch Behar, and Tripura are likely to be discussed, the Chief Secretary, West Bengal, shall arrange for their representatives to be present.

SECTION III: (1) This conference recommends that another Inter-Dominion Conference should be called at a very early date to which representatives of other provinces and States (except East and West Punjab and NWFP) from which exodus has taken place on a large scale, or is likely to take place, should be invited to consider action on lines similar to those proposed above or on any other suitable lines in respect of (a) protection and other safeguards for the property of refugees who have gone out from one Dominion to the other temporarily or otherwise, and (b) creation of conditions in any affected area which will reassure the minorities that their interests and rights are fully safeguarded and will prevent exodus or will induce evacuees to return to their homes.

(2) It is further understood that a separate conference, as already agreed to, is to be held to consider the special problems relating to East and West Punjab and NWFP. It is recommended that this conference should also be held at a very early date.

(3) It is further recommended that a separate Inter-Dominion Conference should be called at an early date, at which representatives of East Bengal and Assam are present, to discuss the question of migration of Muslims from East Bengal to Assam and the migration of Muslims—who have been in Assam prior to partition—into East Bengal. Pending this conference, both sides agree not to take any action to force or precipitate migration from one province to the other on a mass scale.

SECTION IV: The report of the Export Committee appointed by the Inter-Dominion Conference to consider certain economic issues was discussed and the two Dominions agreed to give immediate effect to the recommendations made therein subject to the modifications described in the addendum appended thereto.

Committee Appointed

At the very outset, the Inter-Dominion Conference had set up a committee consisting of high officials of both Dominions, provinces and States, and experts, to examine the problems that have arisen following the termination of the standstill agreement, the imposition of a customs barrier and the application of export control restrictions in regard to the movement of goods from one Dominion to the other.

The committee recognized the importance of removing, as far as possible, the economic hardships, inconveniences and grievances of travellers resulting from the customs barriers and restrictions. Some of the main recommendations of this committee, which the conference of Ministers of the Dominions and provinces have approved are summarized below:

(1) Restrictions on movement of goods and passengers.

(a) The customs authorities of the two Dominions should together work out a common set of simple baggage rules applicable on both sides to passengers travelling from one Dominion to the other.

(b) The application of the baggage rules should be made with due consideration so as to avoid irksome restrictions and unnecessary harassment of passengers.

(c) Passengers' baggage should be checked only by authorized customs staff and no one else.

(d) Personal searches should, as a rule, be avoided and only carried out in cases where there is genuine suspicion of smuggling. In such cases, the search should only be conducted under the personal orders of the seniormost customs official present and a record of all searches made should be maintained. Liaison officers should be allowed facilities to ensure a fair application of these rules.

(e) The personal search of women passengers should be carried out only by women officers, as provided for by the Sea Customs Act.

Tariff Schedule

(F) Both Dominions should re-examine their tariff schedule and their import and export control notifications to see what relaxations are possible with a view to minimizing or rendering unnecessary any customs formalities in regard to the personal effects of passengers.

(G) Passengers should be shown every consideration and as far as possible suitable arrangements should be made to facilitate the easy movement of through passengers without needless examination and harassment.

(H) No person other than an authorized Government servants, e.g. a police officer duly authorized, may hold up any person crossing the frontier on the ground that he is carrying or suspected to be carrying contraband goods or is smuggling. Such a person should be taken or directed to the nearest customs post by such officer for examination and no examination of his luggage or person should be made by anyone who does not belong to the customs staff. All such authorized officers should wear distinctive badges.

(1) All authorized customs officers should carry suitable badges or other means of identification.

(2) Once a passenger has passed the customs frontier, no further search or examination of his luggage or person should be made. In order to facilitate the movement of goods and commodities in general the Committee made the following recommendations:

(a) As far as possible, the two Dominions should set up parallel customs posts as near to each other as possible so that for each customs post in one Dominion there is an opposite number.

(b) Having regard to economic considerations, both the Dominions should try to reduce the number of commodities which when moving from one Dominion to the other, shall be subjected to an import or export duty, in fact only specified articles should be liable to duty and the rest should be free. This would obviate the absurd difficulties which have arisen in regard to perishables.

Export Trade

(c) A similar examination of the export trade control notification should be made by both Dominions. There is no import control between the two Dominions at the moment.

(d) Where any cultivator living in a border village of one Dominion has land in a border village in the other Dominion he should be permitted, within a reasonable period after the harvest, to take across the border to his residence, reasonable quantities of any controlled commodities produced by him for his domestic consumption with the minimum of restriction and formalities.

(2) Transit.

(a) Each Dominion should take effective measures for the smooth implementation of transit facilities to the other Dominion in accordance with the provisions of international agreements governing such transit.

(b) Foreign exchange earning or liability for any transit cargo moving in bond shall belong to the Dominion of origin or destination as the case may be and not to the Dominion of transit.

(c) Transit cargo should in general be given the same transport priority as is accorded to similar cargo moving internally.

(d) The customs experts of the two Dominions should get together to evolve a procedure for transit which should be as simple as possible and take into account the peculiar difficulties arising on account of geographical and transport considerations, e.g., the need of transhipment and the location of transport heads at points different from the inter-Dominion boundary. The procedure already introduced by the two Dominions should be reviewed.

(e) The production of a certificate from a customs officer of the Dominion from which the goods are being sent should ordinarily be taken as conclusive evidence of the origin of such commodities at the point of entry for transit and transit facilities should not be denied on the ground that there is any suspicion that the goods might have originally come from the other Dominion.

(f) In order to ensure the smooth working of the transit arrangements the officers of each Dominion should receive suitable instructions to co-operate with the officers of the other Dominion to avoid disputes and difficulties.

Liaison Officers

(g) Each Dominion should post liaison officers at important customs outposts and important points en route selected by agreement in the other Dominion so as to facilitate the removal of any difficulties that might crop up. These liaison officers should be persons specially selected for their capacity to smoothen difficulties. These liaison officers will also have other functions in connexion with the removal of difficulties of travellers and movement of goods and baggage.

(h) Where road or river transport is involved by itself or in combination with any other form of transport, arrangements should be made for transit facilities by establishing suitable out agencies.

(3) Transport.

(a) To ensure that transport bottlenecks and congestion are avoided, mutual contacts are necessary at operational levels between the railways of the two Dominions. Operational committees consisting of representatives of the three railways in the eastern region and the two railways in the western region should be set up to deal with difficulties relating to rail transport including in particular, delay in the turn round of wagons; discriminatory treatment in the allotment of wagons or charging of freight; matters affecting priorities.

(b) It is further recommended that a railway operational committee be established on an inter-Dominion basis which could settle broad principles of inter-Dominion rail transport.

(4) Facilities for repairs.

The movement of machinery, sent from one Dominion to the other for repairs and return, should be dealt with under the arrangements normally provided for under the import and export rules. To cover, however, cases of machinery sent before the establishment of a customs frontier, reasonable latitude shall be given for a matter of three months in the application of the rules.

(5) Miscellaneous matters.

(a) In order to ensure the avoidance of undue hardship resulting from the switch-over from the standstill to the new situation, the two Dominions will consider sympathetically applications for the issue of export licences for goods which were imported from overseas specially to meet orders placed by customers in the other Dominion. This is only for a short period of transition and will apply generally to shipments made and paid for before December 31, 1947. Commodities specifically ordered by dealers in one Dominion through the ports of the other Dominion should be covered by the Standstill Agreement or the transit arrangements as the case may be and should not be denied to the persons who have ordered, paid or will pay for the goods.

(b) It was recognized that regular terms of trade agreements could not be negotiated in Calcutta by this Committee. What this Committee was to take note of was the economic background and the preparation of relationship between what are now two different Dominions and pending the shaping of long-term policies and adjustments, to arrive at some arrangement regarding the supply by each Dominion of the essential requirements of the other. Aggravation of the situation caused by the termination of the Standstill Agreement and the introduction of customs barriers was also to be taken note of. This had created, especially in the eastern zone, grievous hardships in the day-to-day life of the common man. Parts of one Dominion are dependant on the border areas of the other Dominion for daily necessities such as, fish, fresh fruit, milk, milk products and vegetables and firewood.

(c) After considering the views put forward by the representatives of the several Governments, the Committee recommended that the restrictions, whether imposed by a Central or provincial Government, on the movement between the two Dominions of commodities such as fresh fruit, vegetables, fresh milk and its products, poultry and eggs, local spices, bamboo and firewood, and any custom duties thereon must be removed. The Indian Government has agreed to discuss the supply of mustard oil to East Bengal at a meeting to be arranged within the next three weeks. Until then the Pakistan Government will continue to allow the free movement of fish (fresh and dry) without any duty.

(d) The Committee considered that it would be in the interests of both the Dominions if an agreement or agreements could be reached in the near future for the mutual supply of commodities essential for each other's economy.

Such agreements and their implementation would promote the continuance of the close economic relationships which have existed in the past between the areas now included in the two Dominions. The time for the commencement of discussions on this and other connected matters should be settled between the two Governments at an early date. meanwhile the Committee has made recommendations for dealing with the immediate requirements of certain essential commodities of both Dominions.

Postal Rates

(e) Postal, telegraphic and telephone rates.

It was agreed that this question, as well as the question of simplifying the movement of letters and postcards so as to reduce the delays which now arise by passing them through the exchanges, should be examined urgently by experts of both the Dominions. Arrangements were already being made for these discussions. The question of parcels which are subject to customs duty, might require different treatment.

(f) The Committee agreed that orders should be issued by both Governments to the authorities concerned for termination forthwith of the unauthorized hold-up of goods, including personal effects, which had occurred in the past between the two Dominions in the light of the conclusions now reached. The articles which were already in movement through recognized carriers before the termination of the Standstill Agreement should be let through with the minimum of formalities.

Liaison and co-ordination.

The Committee considered that it is a matter of paramount importance that there should be liaison between the officers of the two Dominions at all levels for ensuring close co-ordination and freedom from harassment and delays of every kind.

Apart from the system of the appointment of special liaison officers of suitable grades wherever the volume and nature of the work justified it, the officers of the provincial Governments and the Central Governments of the two Dominions should make it a point of maintaining mutual contact and goodwill with their opposite numbers with a view to removing each other's difficulties.

The successful implementation of any agreement, or rules, largely depends upon the goodwill and co-operation of officials at all levels, and the highest administrative officers of the two Dominions should endeavour to instil this spirit amongst their officers and subordinates of every grade.—API.

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Consulate General,
Calcutta, India.
June 17, 1948.

Subject: INDO-PAKISTAN Supply Agreement.

The Consul General has the honor to transmit herewith the text, as published in the Amrita Bazar Patrika June 11, 1948, of the INDO-PAKISTAN Supply Agreement which was signed in Karachi on May 26, 1948 by Mr. C.C. Desai, for the Government of India, and Mr. Mohd. Ali for the Government of Pakistan. Reference is made in this connection to despatch no. 243 dated April 27, 1948 from this Consulate General transmitting the text of the Inter-Dominion agreement concluded in Calcutta on April 19, 1948 in implementation of which the present supply agreement has been negotiated.

It will be observed that in respect of raw jute for the present season Pakistan has agreed to supply the Indian Dominion with five million bales and that the latter has agreed to restrict exports of raw jute to 900,000 bales predominantly of the Indian varieties, the bulk of which would not be suitable for use in Indian mills. Although it is evident from the detailed schedules that many of Pakistan's requirements, particularly for chemicals, have not been met, it is believed to be encouraging that approximately two-thirds of its stated needs for coal, all of the stated needs for cloth and yarn, and a small allocation of steel, pig iron, scrap, paper and board have been made available. The agreement is generally regarded in Calcutta as a constructive step in the direction of restoring normal trade relations between East and West Bengal which have been seriously dislocated since the termination of the Standstill Agreement on March 1, 1948.

845.48/6-1748

Enclosures:
Clipping from the Amrita Bazar Patrika
dated June 11, 1948 in quintuplicate.

631
Eugene A. Gilmore, Jr./sj

Original and hectograph to Department
Copies to: American Embassies, New Delhi, Karachi and London
American Consulates General, Bombay, Madras and Lahore

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Secretary of State,

Washington.

A-173, October 23, 1948.

Reference: Calcutta's voluntary reports nos. 84 and 85 dated October 15, 1948.

DEPARTMENT OF STATE
NOV 8 1948
DC/L
LIAISON OFFICER

According to a press report (Statesman, Calcutta, October 2, 1948) the Government of India and Government of Pakistan have just completed a conference at Karachi at Secretariat level which centered around the supply of 5 million bales of jute and 650,000 bales of cotton by Pakistan to India. In place of the monthly quotas previously mentioned (see Calcutta's voluntary reports nos. 84 and 85 dated October 15, 1948) they have agreed on periodical allocations.

Details of the agreement are expected to be released shortly, simultaneously in Karachi and Delhi after ratification by the two Governments.

DERRY

868.12
Elton G. Nelson/sej

Hectograph to Department of State
Copies to:(Office of Foreign Agricultural Relations,
(United States Department of Agriculture, Washington
American Embassies, New Delhi and Karachi
American Consulates General, Bombay and Madras

645.45F31/10-2248

NOV 10 1948

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BOMBAY

DESP. 615

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DEC 6 1948 ITP

AMERICAN CONSULATE GENERAL

Berlin, Germany, November 22, 1948

UNCLASSIFIED

Subject: Indo-Pakistan Cloth and Yarn Agreement

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to transmit the text of the cotton cloth and yarn agreement made between India and Pakistan effected in Karachi on November 10, 1948.

The Government of India will make available for selling the cloth and yarn to Pakistan and Pakistan has agreed that Pakistan will have the agreement in India regarding the need of Pakistan to receive these commodities. The allocation of the various qualities, the total quantities to be supplied with conditions of sale were included in the agreement. The agreement has to be approved by the two governments which is now being effected. It is the considered opinion of Embassy that the agreement will be approved as signed.

Respectfully yours,

Maxwell M. Rabb
American Consul General

Enclosure:

Copy of text from New Delhi dispatch, Reuters, November 23, 1948.

GC: (860.11)
MMRabb/lf

Original and hectograph to Department

Copy to:

American Embassy, New Delhi.

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845.24/11-2248

Enclosure [illegible] to Despatch [illegible] 1948 from [illegible] Chargé d'Affaires [illegible], New Delhi, India, entitled "India-Pakistan [illegible] Agreement"

[illegible]

[illegible]

November [illegible], 1948

SUPPLY OF CLOTH AND YARN TO PAKISTAN - Text of Part [illegible] of Bombay Inter-Dominion Agreement.

The following is the text of the agreement:

"It was agreed that the [illegible] of cloth and yarn to Pakistan by India will be on Government [illegible] basis. For this purpose, the Government of India [illegible] any [illegible] consider necessary. The Government of Pakistan will [illegible] agency [illegible] they consider necessary - a [illegible] private trade agency - but there should be [illegible] East Bengal and another for the rest of Pakistan.

For cloth supplies to Pakistan [illegible] will pay the Government of India the controlled ex-mill prices plus the [illegible] margin of fifteen percent [illegible]. This will be a modification of the previous [illegible].

It was agreed that [illegible] reduction [illegible] of the exporter's margin by the Government of India [illegible] agreement. On the other hand, if the Government of India reduce the general export duty below ten percent or export [illegible] to other countries below 20 percent, Pakistan would [illegible] benefit of such reduction.

It was agreed that for yarn supplies to them, Pakistan would pay the controlled ex-mill prices plus an exporter's margin of ten percent. This percentage will be subject to reconsideration between the two Governments should the Government of India propose to impose an export duty on yarn.

All the above prices would be for cloth or yarn F.O.B. India ports or F.O.R. in case of despatches from mills by all-rail route.

For cloth and yarn purchased by them, Pakistan would pay by irrevocable letters of credit [illegible] the Government of India existing or future restrictions [illegible] applicable to exports to other countries will not [illegible] supplies to Pakistan.

Facilities for Inspection

The Government of Pakistan will be given facilities for the inspection of cloth and [illegible], before shipment takes place. The inspection [illegible] basis of a maximum of 2 percent

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[illegible] 48 AMEMBASSY
New Delhi, India, January 14, 1948

UNCLAS IMMED

Subject: Future Pattern of Indo-Pakistan Trade

The Honorable
The Secretary of State,
Washington, D. C.

Sir:

I have the honor to enclose a copy of an article appearing in the annual Review number of Commerce, December, 1947, regarding the future pattern of Indo-Pakistan trade.

Before partition of the country, trade between the regions now known as Pakistan and India consisted in the exchange of raw materials of the former for manufactures of the latter. It is argued in the article under reference that Pakistan is more dependent on this exchange than is India.

Although Pakistan might try to pursue a vigorous industrial policy, there are, according to the article, two important limitations on Pakistan's prospects in this regard. One is Pakistan's financial obligation to India, which, on account of Pakistan's share of the uncovered liabilities of the former undivided Government, all of which was provisionally assumed by India, and of the interest and rentals from assets in Pakistan due to their source in India, will require Pakistan to find enough foreign exchange to pay India from Rs. 40 to 45 crores yearly. As an exporter primarily of raw materials Pakistan, it is stated, should be able to earn more than enough foreign exchange to meet this obligation. As a manufacturing country, however, Pakistan does not possess in general the advantages on which would enable it to compete to any great extent in world markets.

The second limitation on Pakistan's industrial potential is that, lacking iron resources, Pakistan has no steel industry which is essential to modern industrialization. On the other hand, it is claimed that India is in a position to produce for itself the raw materials which ordinarily are obtained from the territory of Pakistan.

While the article is interesting for the facts which it presents, particularly in respect of Pakistan's financial obligations to India, its comparison of the trade position

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[illegible] Pakistan and India in normal distrust in favor of [illegible] Jubbar. For instance, no credits [illegible] since of India's [illegible] exchange difficulties which [illegible] inflator of [illegible] policed out on November 1, 1947. An address [illegible] Indian's export policy, reports in the embassy's [illegible] No. 300 of November 10, 1947, stated that if India is to continue to import [illegible] and also [illegible] industrial raw materials, [illegible] consumer [illegible] to meet minimum requirements, India will, after [illegible] for storing reserves, interest on the funded [illegible] the sterling balances, and amortization of non-[illegible] capital imports, have a deficit in its international [illegible] of exports of about Rs. 100 crores which will have to be met largely by an increase in exports.

[illegible] foreign trade balance, even on private account, would finance the first five months of 1948 to [illegible] any quantity of foreign exchange India would [illegible], which is being met by Government previous [illegible], constitutes a drain on the present reserves of [illegible] in sterling.

India therefore would seem to be under no less [illegible] export expansion than Pakistan to expand exports [illegible]. Pakistan, however, would have a world market [illegible] products such as cotton, hides and skins, [illegible], and probably even jute. It is not certain, on the other hand, that India will be able in the near future to compete on a world wide basis in the sale of manufactures (other than jute), the production of which it wishes to promote. It may have to be content with a regional market, of which Pakistan would probably represent a very important segment.

From the point of view of the jute industry, the two Dominions are much like Siamese twins. Severance of the two might be fatal to both. It is questionable at least whether India could produce [illegible] more readily than Pakistan could [illegible] jute mills or ship the raw material to countries other than India for manufacture.

Respectfully yours,

Howard Donovan
Chargé d'Affaires ad interim

Enclosures:
1. Copy of [illegible] article from Commerce, 1947 Annual Review Number.

850
RHCarr/Fob
Original and [illegible] to Department

cc: American Embassy, Karachi
American Consular Offices in India.

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(Contributed)

[illegible] political problems apart, the partition of India into two independent States has created a number of economic problems. Before and recently, not to speak of its long political history, has made the country free from direct economic unity, but it has undermined other economic ties which were developed under the British Raj. In the country, its continued dislocation of its economic structure and disorganized the pattern of its trade and commerce. For this reason, the hope of economic development in India and Pakistan depends largely on the restoration of normal trade relations between the two countries.

The chief of differences which followed partition, and the consequent mass migration of the Hindus and Muslims in the West and East Punjabs, are very likely to have long-term effects on the economic development of both countries. The economic life of the Punjab was disrupted by the migration of the Hindus and Sikhs from West Punjab to East Punjab and of the Muslims in the opposite direction. The Punjab is the most important agricultural region in India and Pakistan. Before partition, East Punjab used to be supplied with a substantial portion of raw jute and raw cotton from what became Pakistan. On the other hand, Pakistan was to find many manufactured articles from India, principally cotton textiles, woollen manufactures, iron and steel, coke and chemicals, and a host of other articles. Furthermore, both have become neighbours, being connected with a long line of land frontier. Since any long-standing political friendship is supposed to foster economic and trade relationship, it is imperative that there should be lucrative trade between them for mutual benefit, as, for instance, between the U.S.A. and Canada.

The pattern of trade is likely to undergo modification now that Pakistan has become an independent Dominion. It is possible that Pakistan might try to pursue a policy of industrialization and to transform its agricultural economy into a semi-industrial economy. This process will take time and, in the meanwhile, it will have to import the raw materials such as jute, cotton, raw hides

End

and skins, and wool to India and other countries in order to earn precious foreign exchange resources. This apart, it cannot afford to be isolated from India, because it has to meet a number of obligations to the latter. According to the latest orders arrived at between the two Dominions, Pakistan has to share 17½ per cent of the assets and liabilities of India. Since India has agreed to shoulder the entire public debt of the undivided country, it will naturally expect Pakistan to honour the repayment of its portion of the liabilities. The financial understanding with Pakistan contemplates repayment of its portion of the debt in 50 equal instalments from 1951 onwards. The latest figure of the public debt of All-India stands at Rs. 2,140 and Pakistan's share on the basis of the above division will come to Rs. 375 crores. In order to discharge this debt in 50 equal instalments together with interest, Pakistan will have to pay nearly Rs. 20 crores every year from 1951, the burden of repayment gradually coming down as the final repayment date puts nearer. Hence Pakistan has to export goods and merchandise to the extent of Rs. 20 crores annually on this account alone.

On another account also, Pakistan has to bear a heavy burden unless an amicable understanding on this question is arrived at in the near future. And such concerns the large landed property and other assets held by Indian nationals in Pakistan. The complete mass migration of the minority community from West Punjab to the borders of India has complicated this problem. It is well known that the Hindus and the Sikhs have substantial landed and house property in West Punjab, not to mention factories and commercial concerns. It is computed that, even at a conservative estimate, the gross property left behind by them in West Punjab, after offsetting the share belonging to the Muslims of East Punjab, Delhi, and other places who have chosen the Pakistan nationality, is about Rs. 500 crores. Further, a number of non-Muslim zamindars of East Bengal live in Calcutta and other places in the Indian Union and draw their income from the land property held by them in East Bengal. According to informed circles, the extent of money rentals drawn by them is estimated between Rs. 5 and Rs. 10 crores per annum. Hence the annual rental income from property held by non-Muslims in Pakistan, who have practically migrated to India, may be placed between Rs. 30 and Rs. 45 crores per year.

Thus the payment of interest and rentals, which Pakistan may owe to India on debt and property account, respectively, amounts to Rs. 40 to Rs. 45 crores a year. In order to meet this heavy obligation, Pakistan must

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solute

...ale of raw cotton exports, should it bring more bene... or cotton. It has scope for replacing part of the ... exports, provided also it is able to ... the price of jute goods (Rs/t) further.

The real development needs, now, to be ... profound industrial development programme. It ... have to give priority to those industries, the ... of which is cheap consumer goods for the territories ... these items are costly because of ... cost, the small market and many restrictions, it can ... competitive capacity to export manufactured articles will, in any ..., be limited, and may not become a profitable or ... practical proposition for many years to come. Hence it ... that the thrust in regard to the development ... cotton textile industry.

The jute fibre of West Bengal is an industrial ... material in order to maintain and ... capacity where the position is ... be cut to below that of the ... monopoly position. If Pakistan were to take a long ... view, it would be very liberal in the supplies at ... prices and not ... The Indian jute mills are the best customers ... product at present, since they are not able to ... raw jute in great quantities, ... the technical assistance of the Indian Central Jute Committee, to grow sufficient ... of raw jute in the Indian Union itself. ... efforts in this direction were to be crowned ... success, they could dislocate the entire economy ... Pakistan, in as much jute forms an important cash ... in that province. It is, therefore, in the ... of West Bengal not to hamper exports of raw ... from the territory. Great publicity is being ... given about the plans for the development of the jute ... industry in West Bengal with foreign aid. Since ... new mills so erected at the present high cost of ... machinery and building materials will have to compete ... with those of foreign countries, which are more efficient ... organised, it is doubtful whether the proposal will ... at all be a great financial proposition. It will be ... remembered that the present capacity of jute mills in ... India and foreign countries are more than adequate to ... the entire world demand. However, West Bengal can ... develop jute exports to some extent and change the ... channel of trade from Calcutta to Chittagong.

In the near future Pakistan may develop its ... industry with the help of the personnel who have ... migrated from the western districts of the United ... Provinces,

Indian Union should execute all the irrigation projects now under consideration, it would bring an area of nearly 50 to 60 million acres under food and cash crops. It would make it possible for India to grow the required long-staple cotton in the Tungabhadra area, the Kapili Valley area, Mysore, and South India. Its import of raw jute will also go down to the minimum, say 10 lakh bales as against 60 lakh bales as at present. In tobacco and other items, it could make itself self-sufficient. It will not be so in the case of Pakistan, as it lacks in many essential industries and raw materials which generally make any nation a great industrial and political power. The absence of iron and steel industry, which is a sine qua non for the development of other industries, for instance, will be a great handicap and is bound to arrest its progress in the industrial sphere. At best, Pakistan could have light industries producing some consumer goods and should be content to import a number of manufactured articles either from India or foreign countries. But the question is: will it be content to do so? ...

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

No. 389

1948 MAY 2 AM 10 25

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AMERICAN EMBASSY

New Delhi, India, April 20, 1948

Subject: Inter-Dominion Conference on Minorities and Trade.

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THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to report that there was convened on April 15, at Calcutta, an Inter-Dominion Conference which is considering various problems arising in the relations between India and Pakistan concerning the treatment of minorities and barriers to trade.

While the question of the security of minorities in East and West Bengal and other parts of the Dominions is of outstanding importance in the discussions, the question of trade relations, which have an important bearing on the problems of minorities, is also under discussion. Among the matters being covered by the trade discussions are the removal of customs posts and the lowering of postal rates between the two Dominions, and measures to facilitate the free transit of imported goods through one Dominion to the other.

The situation in respect of customs posts is described in the following exerpt from a news report regarding the Conference:

> "At present there are 93 customs posts between India and Pakistan. Of these 32 are between East and West Punjab under the control of the Central Excise, Delhi, 39 between East and West Bengal under the Collectorate of Central Excise, Calcutta and 22 between Assam and East Bengal under the control of the Collector of Excise, Shillong. Certain restrictions have already been relaxed between East and West Bengal to facilitate a free flow of food stuffs like fish, eggs, and poultry."

The Indian

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[redacted]

New Delhi, India
April 20, 1948
Despatch No. 389

UNCLASSIFIED

The Indian delegation to the conference is headed by Mr. K. C. Neogy, Minister for Relief and Rehabilitation. The Ministries of Industry and Supply, Finance and Food are also represented in the Indian delegation. The Pakistan delegation is headed by Mr. Ghulam Mohammad, Finance Minister of Pakistan.

Respectfully yours,

Henry F. Grady

Henry F. Grady

631

RMCarr/sfc

Original and hectograph to Department.

Copy to: American Consulates General,
Bombay, Calcutta, Madras.

UNCLASSIFIED

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

1948 JUN 25 AM 10 30

No. 672

UNCLASSIFIED

AMERICAN EMBASSY

New Delhi, India, June 12, 1948.

Subject: Indo-Pakistan Agreement regarding Exchange of Essential Commodities.

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to enclose clippings of a report appearing in the Hindustan Times of June 10, 1948 regarding an Agreement between India and Pakistan signed on May 26, 1948, providing for exchange between the two countries of essential commodities. The text of the Agreement, together with its annexures, is set forth in the report.

Among the commodities in respect of which India has agreed to supply Pakistan specified quantities are coal, cloth and yarn, railroad stores, tobacco and tea chests. Pakistan in return will supply India specified quantities of raw cotton, food grains, rock salt and certain other articles. The goods will ordinarily be supplied through commercial channels. Each Dominion agrees to issue the export licenses necessary to facilitate trade in the commodities involved up to the limit of the quantities specified.

Respectfully yours,

For the Ambassador:

Howard Donovan
Counselor of Embassy

Enclosure:

5 Clippings of article from the Hindustan Times of 6/10/48 on Indo-Pakistan Agreement.

631
RMCarr:dmt

Original and hectograph to Department.

Copies to: American Consulates General, Bombay, Calcutta and Madras.

UNCLASSIFIED

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1948 JUN 24 PM 2 24

DEPARTMENT OF STATE

Enclosure ... 1 ... to
~~Report~~ ... Despatch 642
Dated ... June 12, 1948 ...
AMERICAN EMBASSY,
NEW DELHI, INDIA

HINDUSTAN TIMES June 10, 1948

INDO-PAKISTAN PACT ON ESSENTIAL SUPPLIES

UNION TO EXPORT COAL & CLOTH: IMPORTS OF JUTE & FOOD

An agreement between India and Pakistan for the mutual supply of certain essential commodities was signed in Karachi on May 26 by Mr C. C. Desai, for the Government of India, and Mr Mohd. Ali, for the Government of Pakistan. This agreement has since been approved by both Governments.

Among the commodities India has agreed to supply to Pakistan are coal (183,000 tons per month, including as far as possible 5,000 tons of hard coke), cloth and yarn (4,00,000 bales), railway stores (39.3 lakh rupees), tobacco (7,00,000 lbs.) and tea chests (3,00,000 pieces).

Pakistan will give India raw jute (5,000,000 bales), raw cotton (650,000 bales), food grains (175,000 tons) and rock salt (2,000,000 maunds). These are besides certain other articles.

Text Of Agreement

The following is the text of the agreement:—

The representatives of the Government of India and the Government of Pakistan having considered the requirements of essential commodities which each Dominion needs from the other have, subject to ratification by their respective Governments, agreed as hereunder.

1. The qualities of each commodity which each Dominion undertakes to make available to the other are stated in annexures I and II. The annexures also indicate the demands made by each Dominion in respect of each commodity and special features, if any.

2. Apart from the commodities listed in the annexures I and II it was agreed to show the maximum consideration in facilitating the export of goods from one Dominion to the other. It was agreed that imported goods which had been shipped and paid for in either Dominion before December 31, 1947 out of the undivided exchange account will be allowed to be re-exported to the other Dominion wherever it is established that the goods were originally intended for consumption in that Dominion.

3. The period of the agreement will be one year from July 1, 1948 to June 30 of 1949 except as regards:

(a) raw cotton and cotton textiles, for which the agreement shall cover the period from September 1, 1948 to August 31, 1949; and

(b) food grains for which the agreement will be for the period June 1, 1948 to August 31, 1949

4. With such exceptions as may be mutually agreed upon, supplies will ordinarily be made through commercial channels. Commodities which are not subject to any control either internally or for export present no problems. In the case of commodities which are not subject to internal control but are subject to export control, the supplying Dominion shall issue necessary export licences in such a manner that the export of the agreed quantities will be facilitated. In respect of commodities which are subject to internal as well as export control, the supplying Dominion shall either supply on a Government to Government basis or make specific allocations in conformity with their internal control as well as issue export licences.

5. In regard to raw jute, India agrees to restrict her exports of raw jute from the Indian Dominion to nine lakhs of bales predominantly of the Indian varieties the bulk of which is not suitable for use in Indian mills and is usually exported.

6. It is agreed that neither Dominion will re-export to any country any commodity imported from the other Dominion in the form in which it was imported.

7. Pakistan agrees to supply food grains to India at the same rate as is charged for supplies to its own deficit Provinces. India agrees to supply steel f.o.b. Calcutta at f.o.b. Calcutta

prices. The freight will be borne by the buyers. India also agrees that the internal controlled price of coal and paper will continue to be charged for sales to Pakistan also. Supplies of coal to the Government of Pakistan will be paid for out of irrevocable credits to be opened by the Pakistan Government. Other supplies of coal to Pakistan will be made on pre-payment by the purchasers in the usual manner. The prices indicated are exclusive of any export or import duties that may be levied by either Dominion.

8. It was agreed that subject to seasonal considerations each Dominion should spread its purchases as uniformly and conveniently as possible.

9. In order to implement the Agreement in a smooth and orderly way, it was agreed that monthly progress reports should be exchanged between the two Dominions, and that meetings between representatives of the two Dominions should be held every other month for this purpose.

10. During the currency of this Agreement items may be added to or taken away from the lists of commodities included in the annexures by mutual agreement between the two Dominions.

(C. C. DESAI). (MOHD. ALI).

Annexure No. I

REQUIREMENTS OF PAKISTAN

The statement below is given in the following order: serial number of commodity—commodity — Pakistan's stated annual requirements—quantity agreed to by India and remarks:

1 Coal—3,400,000 tons—183.000 tons per month (including as far as possible 5,000 tons of hard coke.)—160,000 tons per month are firm. As for the balance of 23,000 tons, India will make every effort to move this quantity, subject to adequate transport being available, and will also invite the co-operation of Pakistan in this matter.

2. Cloth and Yarn.—400,000 bales—400,000 bales—One fourth of this total quantity would be in the form of yarn.

3. Steel, pig iron and scrap—313,720 tons—15,000 tons per quarter plus 1,000 tons per quarter of corrugated iron sheets plus 4,000 tons of Pig iron per quarter—nil.

4. Paper and board—20,780 tons—6,000 tons of paper and 1,500 tons of board.

5. **Chemical and Pharmaceuticals:**

Sulphuric acid—2,000 tons—Will be examined in Delhi

Aluminium Sulphate—2,000 tons—Will be examined in Delhi.

Hydrochloric Acid—270 tons—270 tons—nil.

Nitric acid—200 tons—200 tons—nil.

Magnesium Sulphate—800 tons—800 tons—nil.

Ferrous Sulphate—400 tons—nil—Will be examined in Delhi.

6. Copper wire—1,000 tons—nil—nil.

7. Asbestos cement sheets—5,000,000 sq. ft. (5,000 tons)—2,500 tons—As regards the balance India will explore possibility of supplying Mangalore tiles instead.

8. Paints, enamels and varnishes—2,500 tons—2,500 tons—Detailed breakdown not yet furnished. While the overall quantity could be supplied, certain quantities may not be available and substitutes would be suggested.

9. Railway stores—39.3 lakh rupees—Supplies may be available but details will be considered in Delhi.

10. Tyres and tubes—1,300,000 nos—nil—It should be possible to supply most of this requirement, but detailed breakdown according to tyre size and quality required. Matter will have to be examined.

11. **Leather and footwear:**

Upper leather—60,00,000 sq. ft.
Sole leather—75,00,000 lbs.
Lining leather—4,00,000 lbs.
Leather shoes—6,00,000 nos.
Canvas for 3,00,000 shoes.

It should be possible to meet this demand in full provided adequate quantities of hides are available.

12. Hardwood—5,00,000 (C.ft. 10,000 tons)—Nil—India offered to supply instead 10,000 tons of Malabar jungle wood of which samples would be furnished to Pakistan.

13. Jute manufactures—50,000 tons—50,000 tons—nil.

14. Myrobalans .— .2,000 tons — 2,000 tons—nil.

15. Woollen and worsted goods—11,00,000 lbs.—11,00,000 lbs—nil.

16. Mustard oil — 50,000 tons — 20,000 tons—nil.

17. Groundnut oil.—30,000 tons—5,000 tons—nil.

18. Copra Oil—6,000 tons—nil—nil.

19. Seed potatoes—nil—nil—Export would be allowed of local surpluses in both Dominions.

20. Soap, Toilet—2,000 tons—2,000 tons—nil.

21. Tobacco (flue-cured)—7,00,000 lbs.—7,00,000 lbs.—nil.

22. Tea Chests—3,00,000 pieces—nil.—The demand was put forward only in Karachi for the first time. Stated to be urgently required for the tea indusry in East Bengal. Will be considered in Delhi.

(C. C. DESAI) (MOHD. ALI)

Annexure No. II

REQUIREMENTS OF INDIA

The statement below is given in the following order: Serial number of commodity—India's stated annual requirements—quantity agreed to Pakistan and remarks.

1—Raw jute.—1,000,000 tons or 5,500,000 bales.—5,000,000 bales—nil.

2—Raw cotton—900,000 bales—650,000 bales—The proportion of medium and long staple cotton to be decided later.

3—Food grains.

(a) Rice—100,000 tons.

(b) Wheat—200,000 tons.

175,000 tons—Pakistan agrees to supply 175,000 tons of food grains (mainly rice) unless there is a serious failure of crop *i.e.*, to say if the rice crop is 4 annas or more below the average of past five years. Pakistan further agrees to do its best to improve upon this quantity.

4—Gypsum—1,000 tons per day—Rising to 1,000 tons per day under a programme to be mutually agreed upon—nil.

5—Rosin—4,000 tons—nil—nil.

6—Raw hides and skins:

(a) Cow hides—2,000,000 pcs.—1,000,000 pcs. nil.

(b) Buff hides—500,000 pcs.—200,000 pcs—nil.

(c) Skins—1,500,000 pcs.—1,500,000 pcs.—nil.

7—Rock salt—2,000,000 mds.—2,000,000 mds.—nil.

8—Soda Ash.—10,000 tons—nil—Factory is at present closed but is expected to get into normal production by end of 1948. It is hoped to meet India's demand in 1949.

9—Potassium Nitrate—5,000 tons—5,000 tons—nil.

10—Cattle—1,050 heads—550 heads—nil.

(C. C. Desai). (Mohd. Ali).

NO. 304

AIR MAIL

UNCLASSIFIED

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

American Consulate General,
Calcutta, India.
June 17, 1948.

Subject: INDO-PAKISTAN Supply Agreement.

The Consul General has the honor to transmit herewith the text, as published in the Amrita Bazar Patrika June 11, 1948, of the INDO-PAKISTAN Supply Agreement which was signed in Karachi on May 26, 1948 by Mr. C.C. Desai, for the Government of India, and Mr. Mohd. Ali for the Government of Pakistan. Reference is made in this connection to despatch no. 243 dated April 27, 1948 from this Consulate General transmitting the text of the Inter-Dominion agreement concluded in Calcutta on April 19, 1948 in implementation of which the present supply agreement has been negotiated.

It will be observed that in respect of raw jute for the present season Pakistan has agreed to supply the Indian Dominion with five million bales and that the latter has agreed to restrict exports of raw jute to 900,000 bales predominantly of the Indian varieties, the bulk of which would not be suitable for use in Indian mills. Although it is evident from the detailed schedules that many of Pakistan's requirements, particularly for chemicals, have not been met, it is believed to be encouraging that approximately two-thirds of its stated needs for coal, all of the stated needs for cloth and yarn, and a small allocation of steel, pig iron, scrap, paper and board have been made available. The agreement is generally regarded in Calcutta as a constructive step in the direction of restoring normal trade relations between East and West Bengal which have been seriously dislocated since the termination of the Standstill Agreement on March 1, 1948.

Enclosures:
Clipping from the Amrita Bazar Patrika
dated June 11, 1948 in quintuplicate.

631
Eugene A. Gilmore, Jr./sj

Original and hectograph to Department
Copies to: American Embassies, New Delhi, Karachi and London
American Consulates General, Bombay, Madras and Lahore

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AMRITA BAZAR PATRIKA, CALCUTTA, JUNE 11, 1948

INDO-PAKISTAN SUPPLY AGREEMENT

Details Of Requirements & Expected Imports

NEW DELHI, June 9.

An agreement between India and Pakistan for the mutual supply of certain essential commodities was signed in Karachi on May 26 by Mr. C. C. Desai, for the Government of India, and M. Mohd. Ali for the Government of Pakistan, this agreement has since been approved by both Governments.

The following is the text of the agreement :

The representatives of the Government of India and the Government of Pakistan having considered the requirements of essential commodities which each Dominion needs from the other have, subject to ratification by their respective Governments, agreed as hereunder.

(1) The quantities of each commodity which each Dominion undertakes to make available to the other are stated in annexures I and II. The annexures also indicate the demands made by each Dominion in respect of each commodity and special features, if any.

(2) Apart from the commodities listed in the annexures I and II it was agreed to show the maximum consideration in facilitating the export of goods from one Dominion to the other. It was agreed that imported goods which had been shipped and paid for in either Dominion before the 31st of December 1947 out of the undivided exchange account will be allowed to be re-exported to the other Dominion wherever it is established that the goods were originally intended for comsumption in that Dominion.

(3) The period of the agreement will be one year from first July 1948 to the 30th June 1949 except as regards :

(a) Raw cotton and cotton textiles, for which the agreement shall cover the period from first September 1948 to 31st August 1949 and

(b) Food-grains for which the agreement will be for the period first June 1948 to 31st August 1949.

PROCESS OF SUPPLY

(4) With such exceptions as may be mutually agreed upon supplies will ordinarily be made through commercial channels. Commodities which are not subject to any control either internally or for export present no problems. In the cases of commodities which are not subject to internal control but are subject to export control, the supplying Dominion shall issue necessary export licences in such a manner that the export of the agreed quantities will be facilitated. In respect of commodities which are subject to internal as well as export control, the supplying Dominion shall either supply on a Government to Government basis or make specific allocations in conformity with their internal control as well as issue export licences.

(5) In regard to raw jute India agrees to restrict her exports of raw jute from the Indian Dominion to nine lakhs of bales predominantly of the Indian varieties the bulk of which is not suitable for use in Indian mills and is usually exported.

(6) It is agreed that neither Dominion will re-export to any country any commodity imported from the other Dominion in the form in which it was imported

RECIPROCAL SUPPLIES

(7) Pakistan agrees to supply foodgrains to India at the same rate as is charged from supplies to its own deficit provinces. India agrees to supply steel F.O.B. Calcutta at F.O.B. Calcutta prices. The freight will be borne by the buyers.

India also agrees that the internal controlled price of coal and paper will continue to be charged for sales to Pakistan also. Supplies of coal to the Government of Pakistan will be paid for out of irrevocable credits to be opened by the Pakistan Government. Other supplies of coal to Pakistan will be made on prepayment by the purchaser. The prices indicated are exclusive of any export or import duties that may be levied by either Dominions.

(8) It was agreed that subject to seasonal considerations each Dominion should treat its purchases as uniformly and conveniently as possible.

(9) In order to implement the agreement in a smooth and orderly way, it was agreed that monthly progress reports should be exchanged between the two Dominions, and that meetings between representatives of the two Dominions should be held every other month for this purpose.

(10) During the currency of this agreement items may be added to or taken away from the lists of commodities included in the annexures by mutual agreement between the two Dominions.

ANNEXURE

Requirements Of Pakistan

(1) Commodity.
(2) Pakistan's stated annual requirements.
(3) Quantity agreed to by India.
(4) Remarks.

(1) **Coal.** (2) 3,400,000 tons. (3) 183,000 tons per month (including as far as possible 5,000 tons of hard coke). (4) 160,000 tons per month are firm. As for the balance of 23,000 tons, India will make every effort to move this quantity, subject to adequate transport being available and will also invite the co-operation of Pakistan in this matter.

(1) **Cloth and Yarn.** (2) 400,000 bales. (3) 400,000 bales. (4) One-fourth of this total quantity would be in the form of yarn.

(1) **Steel, pig iron and scrap.** (2) 313,720 tons. (3) 15,000 tons per quarter plus 6,000 tons per quarter of corrugated iron sheets plus 4,000 tons of pig iron per quarter. (4) Nil.

(1) **Paper and board.** (2) 20,780 tons. (3) 6,000 tons of paper and 1,500 tons of board. (4) Nil.

CHEMICALS AND PHARMACEUTICALS

(1) **Sulphuric acid.** (2) 2,000 tons. (3) Nil. (4) Will be examined in Delhi.

(1) **Aluminium Sulphate.** (2) 2,000 tons. (3) Nil. (4) Will be examined in Delhi.

(1) **Hydrochloric Acid.** .(2) 270 tons. (3) 270 tons. (4) Nil.

(1) **Nitric Acid.** (2) 200 tons. (3) 200 tons. (4) Nil.

(1) **Magnesium Sulphate.** (2) 800 tons. (3) 800 tons. (4) Nil.

(1) **Ferrous Sulphate.** (2) 400 tons. (3) Nil. (4) Will be examined in Delhi.

(1) **Copper Wire.** (2) 1,000 tons. (3) Nil. (4) Nil.

(1) **Asbestos Cement Sheets.** (2) 5,000,000 sq. ft. (5,000 tons). (3) 2,500 tons. (4) As regards the balance India will explore possibility of supplying Mangalore tiles instead.

(1) **Paints, Enamels and Varnishes.** (2) 2,900 tons. (3) 2,500 tons. (4) Detailed breakdown not yet finished. While the overall quantity could be supplied, certain quantities may not be available and substitutes would be suggested.

(1) **Railway Stores.** (2) 39,3 lakh rupees. (3) Nil. (4) Supplies may be available but details will be considered in Delhi.

(1) **Tyres and Tubes.** (2) 1,300,000 tons. (3) Nil. (4) Will be examined.

LEATHER AND FOOT WEAR

(1) **Upper leather.** (2) 60,00,000 sq. fit. (3) Nil. (4) It should be possible to meet this demand in full provided adequate quantities of hides are available.

(1) **Sole leather.** (2) 75,00,000 lbs. (3) Nil. (4) Ditto.

(1) **Linding leather.** (2) 4,00,000 lbs. (3) Nil. (4) Ditto.

(1) **Leather Shoes.** (2) 6,00,000 lbs (3) Nil. (4) Ditto.

(1) **Canvas** for 3,000 shoes. (2) Nil. (3) Nil. (4) Ditto.

(1) **Hardwood.** (2) 5,00,000 c. ft. (10,000 tons) (3) Nil. (4) India offered to supply instead 10,000 tons of Malabar wood of which samples would be furnished to Pakistan.

(1) **Jute Manufactures.** (2) 50,000 tons. (3) 50,000 tons (4) Nil.

(1) **Myrabollams.** (2) 2,000 tons. (3) 2,000 tons. (4) Nil.

(1) **Woollen and worsted goods.** (2) 11,00,000 lbs. (3) 11,00,000 lbs.

OIL

(1) **Mustard oil.** (2) 50,000 tons. (3) 20,000 tons. (4) Nil.

(1) **Groundnut oil.** (2) 40,000 tons (3) 5,000 tons. (4) Nil.

(1) **Copra oil.** (2) 6,000 tons. (3) Nil (4) Nil.

(1) **Seed Potatoes.** (2) Nil. (3) Nil. (4) Export would be allowed of local surpluses in both Dominions.

(1) **Soap, Toilet.** (2) 22,000 tons. (3) 22,000 tons. (4) Nil.

(1) **Tobacco (flue-cured).** (2) 7,00,000 lbs. (3) 7,00.000 lbs. (4) Nil.

(1) **Tea Chests.** (2) 3,00,000 pieces. (3) Nil. (4) The demand was put forward only in Karachi for the first time. Stated to be urgently required for the tea industry in East Bengal. Will be considered in Delhi.

ANNEXURE II

Requirements Of India

(1) Commodity.
(2) India's stated annual requirements.
(3) Quantity agreed to by Pakistan.
(4) Remarks.

(1) **Raw Jute.** (2) 1,000,000 tons or 5,500,000 bales. (3) 5,000,000 bales (4) Nil.

(1) **Raw Cotton.** (2) 900,000 bales. (3) 650,000 bales. (4) The proportion of medium and long staple cotton to be decided later

FOODGRAINS

(1) **Rice.** (2) 1000,000 tons. (3) 175,000 tons. (4)Pakistan agrees to supply 175,000 tons of food grains (mainly rice unless there is a serious failure of crop i.e. to say if the rice crop is four annas or more below the average of past five years. Pakistan further agrees to do its best to improve upon this quantity.

(1) **Wheat.** (2) 2000,000 tons. (3) ditto. (4) ditto.

(1) **Gypsum.** (2) 1,000 tons per day. (3) Rising to 1,000 tons per day under a programme to be mutually agreed upon (4) Nil.

RAW HIDES AND SKINS

(1) **Cow Hides.** (2) 2,000,000 pcs. (3) 1,000,000 pcs. (4) Nil

(1) **Buff Hides.** (2) 500,000 pcs. (3) 2,000,000 pcs. (4) Nil

(1) **Skins.** (2) 1,500,000 pcs. (3) 1,500,000 pcs. (4) Nil.

(1) **Rock Salt.** (2) 2,000,000 mds. (3) 2,000,000 mds (4) Nil.

(1) **Soda Ash.** (2) 10 000 tons. (3) Nil. (4) Factory is at present closed but is expected to get into normal production by end of 1948. It is hoped to meet India's demand in 1949.

(1) **Potassium Nitrate.** (2) 5,000 tons. (3) 5,000 tons. (4) Nil

(1) **Cattle.** (2) 1,050 heads. (3) 550 heads. (4) Nil.—(A.P.)

No. 124

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

AMERICAN EMBASSY
Kabul, Afghanistan

July 31, 1948

CONFIDENTIAL

SUBJECT: Confused Commercial Relations between India and Afghanistan and Pakistan.

With reference to a report appearing in The Statesman (Delhi newspaper) regarding customs duties on Indian exports (copy enclosed), the Charge d'Affaires ad interim has the honor to state that this news story of tea exports being held up at the border has been confirmed in discussions with Afghan officials.

Abdul-Hai Khan Aziz, First Under Secretary of the Ministry of National Economy, has stated that both tea and cotton cloth purchased by Afghanistan are being held up in India because of confusion over the levying of customs duties.

As a result the cloth reserves of the Cloth Depot are down to 500,000 meters and the sale of rationed cloth at government stores is to be suspended temporarily to make the cloth available in provinces where it is more urgently needed. At the same time, 4,000,000 meters of cloth purchased by the Afghan Government is lying in Bombay and Hyderabad. Tea, likewise, remains high and in short supply despite the large supplies reported several months ago to have been purchased in India. These shortages of cloth and tea appear to substantiate the report in The Statesman and the confirmation of it by Abdul-Hai Khan Aziz.

Under the trade agreement between British India and Afghanistan of 1923, no duty was to be levied on goods from India consigned to Afghanistan. According to officials of the Pakistan and Indian Embassies in Kabul, this treaty is still being respected pending negotiations of new treaties of commerce. Despite this, the Afghans claim that duties are being imposed by both India and Pakistan.

Although these duties are supposed to be recoverable when goods pass into Afghanistan, considerable difficulty and confusion are being encountered in the actual practice of recovering the duties. This has been an important factor in the current deterioration of commerce between India, Pakistan, and Afghanistan.

Enclosure:

Copy of article from The Statesman entitled "No More Tea for Pakistan".

Original and hectograph to Department
Copies to: Embassy, New Delhi
Embassy, Karachi
Military Attache, Kabul (2)

File no. 631
DBWharton/ih

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AIR MAIL

CONFIDENTIAL

Only enclosure to despatch no. 124 dated July 31, 1948 from the Embassy at Kabul.

Copy of an article from The Statesman (New Delhi) entitled "No More Tea for Pakistan".

ARREARS OF CUSTOMS DUTY DEMANDED

From Our Correspondent

AMRITSAR, July 14.--For about a fortnight the export of tea to Pakistan and Afghanistan through the land route has come to a complete standstill as a result of a sort of a ban that has been imposed by the local land Customs authorities, who demand heavy sums from local exporters as payment of arrears of Customs duty. Unless these arrears are paid consignments are not permitted to cross the border.

These arrears have an interesting story. The land Customs authorities had assessed duty at the rate of one anna per lb., whereas the actual duty was fixed at 4 annas. As millions of pounds of tea have already gone into Pakistan since March 1948, the arrears against every exporter are heavy. Under the law, they are recoverable. Representations have been made by the local Tea Merchants' Association to the Government of India to waive these arrears.

In the same way imports of cottonseed have been badly affected for similar reasons. The import duty on cotton-seed is 36%, but only 30% has been charged and claims for recovery of arrears have been made against local importers.

Keen competition in prices of handloom cloth has affected the export of these goods. The demand for more export licences continues unabated, although local stocks of handloom cloth are by no means heavy.

Export and import trade between India and Pakistan through the land route at Attari and Ferozepore has proved*a great deal. The Customs revenue has shown substantial improvement, in spite of the fact that traders experience considerable difficulty at the border both at the hands of the Customs and the Police.

*Newspaper spelling, but evidently should be improved.

CBW

CONFIDENTIAL

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

INTERNATIONAL TRADE POLICY

ACTION is assigned to

AMERICAN CONSULATE GENERAL

1948 SEP 28 AM 3 37

Lahore, Pakistan, September 9, 1948.

MESSAGE CENTER

UNCLASSIFIED.

NO. 62

SUBJECT: Indo-Pakistan Trade Facilities at Wagha Border.

1 RECEIVED DEPARTMENT OF STATE 1948 SEP 23 AM 11 31 DC/MS FACILITIES BRANCH

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

DIVISION OF SEP 23 1948 DEPARTMENT OF STATE

SIR:

I have the honor to report that a meeting last week between the Deputy Commissioner of Lahore, Mr. Zafrul AHSAN, and Sardar Bahadur Nariander SINGH, Deputy Commissioner of Amritsar, on the subject of trying to ameliorate the petty harassments to which people crossing the frontier have lately been subjected, particularly on the Indian side of the frontier, would appear to have borne fruit, at least on paper.

ACTION ITP COPIES TO: NEA PoS CAI DC/R Com

The Deputy Commissioner at Amritsar issued a press note on Saturday night, (September 5) granting liberal concessions to traders assembling at the border post of Wagha for purposes of trade. The press note runs as follows:-

INDO-PAKISTAN TRADE FACILITIES
AT WAGHA BORDER

(From our own correspondent)

AMRITSAR, Sept. 6: Sardar Bahadur Narinder Singh, Deputy Commissioner, Amritsar, by means of a Press Note issued on Saturday night has granted liberal concessions to traders, assembling at the Wagha border for purposes of trade. The Press Note runs as follows:-

"In order to enable the traders from India and Pakistan to meet freely and exchange goods in the area between the Military check post and the Customs check post on Indian side of the border at Wagha, it has been decided that:

(a) The space between the Military check post and Customs check post will be used as a market place. The Deputy High Commissioner for India at Lahore will issue special permits to Muslim traders at Wagha market. "Wagha market", marked

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C/S/A

"WAGHA PERMITS", prominently.

(b) These permits will be renewable periodically and will enable the holder to cross the Military check post. The permit will be valid only for the space between the Military and the Customs check post and will be so marked.

(c) A police check post has been established at the customs barrier where all people coming into India would be checked again to see if they are in possession of valid permits. It would be the duty of this Check post to see that Muslim traders given special Wagha permits by the Deputy High Commissioner at Lahore do not cross over into Indian territory.

(d) Indian traders and labourers who work in the market area will be issued permanent permits renewable periodically by the Deputy Commissioner, Amritsar. This permit will enable these persons to cross and recross the Indian boundary (both Customs and Military check posts any number of times.

2. Applications, in prescribed form, only recommended by the Superintendent of Police, or permits under clause (d) above, should be presented to Mr. S. C. Chhabra, PCS, Personal Assistant to the Deputy Commissioner, Amritsar, who will issue the permits to the deserving applicants.

Every applicant should attach, with his application, three photographs of passport size, which should be duly attested by a Magistrate.

If any permit-holder is found behaving in a disorderly manner of if he contravenes any rules or order in this connection he will be liable, besides other action, to have his permit cancelled immediately.

3. Stocking of goods in the area is not allowed.

4. This system will come in force with effect from September 5, 1948."

At the time of my arrival in Lahore at the end of July, this Wagha market was an example of natural economic forces operating on men's souls or intellects. The hope of profit overcame to a large extent the resentment caused by the communal slaughter of last year and had created an extraordinary market on the main high-way between Lahore and Amritsar. The exchange of Pakistan grains for Indian cloth and tea was carried on by hundreds of traders under the benevolent eye of the authorities of both sides in a huge sort of neutral zone.

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A sudden access of virtue or the failure of some official to receive his "cut" caused the closing of this vast and presumably lucrative exchange at the beginning of August. Since then trade of all kinds has practically stopped except for a certain amount of inefficient smuggling. While it looks as though trading is now again to be permitted, this time with "official blessings", the Lahore Deputy Commissioner, informs me it is precisely the opposite as where previously two traders of both sides could gather between the Customs post, now a permit will have to be issued to Muslim traders to pass the Indian Customs and meet their customers in the space between the Indian Customs and Military posts. This would make it first difficult, and secondly, dangerous as they would have no escape back in case of trouble, not a hard matter to arrange if desired.

Respectfully yours,

Hooker A. Doolittle
American Consul General

610.1
HADoolittle/mlc

To the Department in original
and hectograph.

Copies to: American Embassy, Karachi
American Embassy, New Delhi

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IR Routing Slip

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NO. 615

AMERICAN CONSUL GENERAL

Bombay, India, November 22, 1948

1948 DEC 1 PM 2 30

UNCLASSIFIED

MESSAGE CENTER

SUBJECT: Indo-Pakistan Cloth and Yarn Agreement

1—1055

THE HONORABLE

THE SECRETARY OF STATE,

WASHINGTON.

SIR:

I have the honor to transmit the text of the cotton cloth and yarn agreement made between India and Pakistan concluded in Bombay on November 10, 1948.

The Government of India will act as the agent for selling the cloth and yarn to Pakistan, and it has been agreed that Pakistan will have one agent in East Bengal and one for the rest of Pakistan to receive these commodities. The proportion of the various qualities, the total quantities to be supplied and the conditions of sale were included in the agreement. The agreement must be approved by the two governments before it can become effective. It is the consensus of opinion in Bombay that the agreement will be approved as signed.

Respectfully yours,

Clare H. Timberlake
American Consul General

Enclosure:

Copy of text from The Bombay Chronicle, Bombay, November 20, 1948.

631 (868.11)
HWSpielman/df

Original and hectograph to the Department

Copy to:

American Embassy, New Delhi.

UNCLASSIFIED

ACTION is assigned to

DEC 2 - 1948 DEPARTMENT OF STATE

SEP 26 1949 FILED

845.6551/11-2248

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THE BOMBAY CHRONICLE, Bombay.

November 20, 1948

SUPPLY OF CLOTH AND YARN TO PAKISTAN - Text of Recent Bombay Inter-Dominion Agreement.

The following is the text of the agreement:

"It was agreed that the supply of cloth and yarn to Pakistan by India will be on Government of India account. For this purpose, the Government of India will use such agencies as they consider necessary. The Government of Pakistan will be free to use any agencies they consider necessary - a Government agency or a private trade agency - but there should be no more than one such agency for East Bengal and another for the rest of Pakistan.

For cloth supplied to them, Pakistan will pay to the Government of India the controlled ex-mill price plus the fixed exporters margin of fifteen percent plus an export duty of ten percent. This will be in modification of the present scale of export duty.

It was agreed that any increase of export duty or of the exporter's margin by the Government of India would not affect the present agreement. On the other hand, if the Government of India reduced the general export duty below ten percent or exporter's margin for other countries below 20 percent, Pakistan would get the benefit of such a reduction.

It was agreed that for yarn supplied to them, Pakistan would pay the controlled ex-mill price plus an exporter's margin of ten percent. This percentage will be subject to reconsideration between the two Governments should the Government of India propose to impose an export duty on yarn.

All the above prices would be for cloth or yarn F.O.B. India ports or F.O.R. in case of despatches from mills by all-rail route.

For cloth and yarn purchased by them. Pakistan would pay by irrevocable letters of credit payable to the Government of India existing or future restrictions as regards widths applicable to exports to other countries will not apply to cloth supplied to Pakistan.

Facilities for Inspection

The Government of Pakistan will be given facilities for the inspection of cloth and yarn at godowns or docks, before shipment takes place. The inspection will be on the basis of a maximum of 2 percent

examination

"examination of each variety in every consignment. Disputes, if any, will be dealt with jointly by the Textile Commissioner of India and the Textile Commissioner of Pakistan.

Pakistan desired that the cloth supplied to them should be price-stamped in the same manner as cloth for internal consumption in India. This was agreed to.

It was agreed that cloth supplied to Pakistan should be in the following proportions:

Superfine: Five percent
Fine: Ten percent
Medium: Fifty percent
Coarse: Thirty-five percent

Within these ranges, the qualities and varieties of cloth to be supplied to Pakistan will be settled by agreement between the Textile Commissioner, India and the Textile Commissioner, Pakistan. The Textile Commissioner of India will also consult the Textile Commissioner of Pakistan about the mills from which supplies to Pakistan will be drawn.

It was agreed that Pakistan would endeavour to purchase 75,000 bales of cloth and 25,000 bales of yarn before December 31, 1948. Thereafter, during the months of January to June 1949, Pakistan will be entitled to purchase cloth and yarn on a monthly average basis of 37,500 bales of cloth and 12,500 bales of yarn subject to a maximum of 45,000 bales of cloth and 15,000 bales of yarn in any one month. The balance of purchase, if any, will be completed before the end of August 1949. The Textile Commissioner of Pakistan will intimate to the Textile Commissioner of India his firm demand for every month before the end of the previous month.

<u>Lapsed Quotas</u>

If the purchase of cloth by Pakistan during any month falls short of 37,500 bales, the difference between 37,500 bales and the quantity actually purchased will be carried forward subject to the proviso that the quality carried forward from one month to another will not exceed 7,500 bales and subject also to the limit of maximum purchase in any one month mentioned in para 11 above.

Where any part of the Pakistan quota lapses due to the operation of this provision, the Government of India will attempt to supply cloth against such lapsed quota during July-August 1949 to the extent possible, if requested to do so by the Government of Pakistan.

These conclusions are subject to approval by the two Governments."

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

DIVISION OF COMMERCIAL POLICY
JUL 5 1949
DEPARTMENT OF STATE

AIRGRAM 194

RESTRICTED

Action Assigned to

Action Taken

Date of Action 7/1/49

Action Office Symbol

Name of Officer

Direction to DC/R

FROM: American Embassy
Karachi, Pakistan.

DATE: June 25, 1949

Rec'd: July 1, 1949
4:59 p.m.

TO: Secretary of State,
Washington.

REFERENCE: A-293, June 25, 1949

ACTION: ITP
INFO:
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June 5-49.
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As has been reported frequently by this Embassy, one aspect of the current disputes between Pakistan and India has been the announced determination by Pakistan to purchase as large a proportion as possible of its imports from countries other than India. Statistics for the foreign trade of Karachi for April and May 1949 indicate that considerable success has attended this effort. During the months of April and May 1948 imports at Karachi were officially estimated at 85,800,000 rupees, of which 500,000 rupees, or 60%, was from India. For the corresponding period in 1949 imports at Karachi were 180,400,000 rupees, of which only 35,000,000 rupees, or 14%, came from India. The following summary of trade during May, issued by the Collector of Customs, Karachi, indicates that increased imports of textiles from the United Kingdom was a leading factor in the new orientation of trade.

There was no corresponding change in the direction of Karachi's exports. In fact, India took 56,700,000 rupees out of a total of 148,800,000 rupees in May 1949, which was a slightly higher percentage than in the same month of 1948, when India took 56,300,000 rupees out of a total of 175,500,000 rupees.

A period of two months is, of course, too short to indicate definitely that a new trend has been established. The benefits to both countries of Indo-Pakistan trade are so obvious that Indian's proportion of this country's imports may be restored through sheer economic pressure. Further study of this problem is being made and will be forwarded with the semi-annual economic report.

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Copies to Lahore and New Delhi

PTP:PE:7/4/49

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DIVISION OF
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DEPARTMENT OF STATE

INCOMING TELEGRAM

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DIVISION OF COMMERCIAL POLICY
JUN 30 1949
DEPARTMENT OF STATE

Control 12599
Rec'd June 30, 1949
3:58 a.m.

Action Assigned to
Action Taken
Date of Action 7/5/49
Action Office Symbol ITP-CP
Name of Officer
Action to DC/R

FROM: New Delhi

TO: Secretary of State

NO: 724, June 28, 11 a.m.

1. In talks regarding Indian balance of payments with Nehru and Roy, suggest Department bear in mind that official figures India's trade deficit compiled by Commerce Ministry are not completely reliable and to an extent are even misleading. For instance recently published figure of rupees 952 million for deficit airborne trade during year ended March does not include land trade with Pakistan for which no statistics available. Total deficit with Pakistan estimated by non-GOI sources at RS 470 to 500 million. Food, grain imports shown by Commerce Ministry as RS 660 million whereas Food Ministry figures show over RS 1.3 billion. Eastern economist June 10 estimates total trade deficit of nearly RS 1.7 million.

2. Eastern economist June 10 advances thesis that trade deficit not result transient circumstances like grain imports and liberal imports from soft currency areas under OGL 11 but there is hard core unbalance due partition and consequent chronic deficit with Pakistan. Present prospect for mutually-required measure of economic cooperation between India and Pakistan by no means promising.

HENDERSON

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DEPARTMENT OF STATE
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INCOMING AIRGRAM

DEPARTMENT OF STATE **DIVISION OF COMMUNICATIONS AND RECORDS** **TELEGRAPH BRANCH**

Action Assigned to

Action Taken

Date of Action 7/14/49

Action Office Symbol ITP/IR

Name of Officer

Direction to DC/R

DIVISION OF COMMERCIAL POLICY
JUL 13 1949
DEPARTMENT OF STATE

645.45F31/6-2949

INTERNATIONAL RESOURCES DIVISION
JUL 12 1949
DEPARTMENT OF STATE

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DEPARTMENT OF STATE
INTERNATIONAL TRADE POLICY

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NO. 549

THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

645.45f31/7-1249

AMERICAN EMBASSY
New Delhi, India, July 12, 1949

UNCLASSIFIED

REC'D
JULY 18

SUBJECT: Indo-Pakistan Agreement Regarding Exchange of Essential Commodities.

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THE SECRETARY OF STATE,

WASHINGTON, D. C.

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SIR:

I have the honor to refer to the Embassy's despatch No.672 of June 12, 1948 and to enclose herewith five copies of the official text of the trade agreement between Pakistan and India for the exchange of certain essential commodities during the year July 1, 1949 to June 30, 1950. This agreement was signed in Karachi on June 24, 1949 and came into effect following ratification by both Governments on June 30, 1949.

It follows in its main outlines the previous year's agreement, but since the negotiators had the advantage of a year's experience of trade between the two dominions, it was possible to set somewhat more realistic targets for a number of products to be exchanged. Raw jute imports from Pakistan have been reduced in the present agreement to 4,000,000 bales as compared with 5,000,000 bales in last year's agreement, a target which was not achieved. It is estimated that the reduction will represent a saving of approximately Rs. 200,000,000 and has been made possible by a substantial increase in this year's Indian jute crop which has now risen to an estimated 3,000,000 bales as compared with 2,100,000 bales last year. Similarly the quantity of raw cotton agreed upon for the current year is 450,000 bales as against 650,000 bales fixed for last year, a target which also was not met. The estimated saving on this account is of the order of Rs. 110,000,000. Contraction in imports of Pakistan cotton has been feasible due to the trade agreement with Egypt. These two items go far to rectify the adverse balance in India's trade with Pakistan last year which is now estimated to have been approximately Rs. 470,000,000.

On the side of Indian exports the agreement is similar to its predecessor. Pakistan is to receive an increase of 10,000 tons of mustard oil and 10,000 tons of groundnut oil as compared with the previous agreement. Items which have been added to the list of those which India agrees to supply include bauxite 2,500 tons and electrical steel plates 500 tons. Tobacco exports have been stepped up by nearly 200%.

The new agreement makes no mention of food grain imports from Pakistan in contrast to last year's provision for import of 175,000 tons. It is understood that this omission reflects uncertainty as to Pakistans food position during the coming year.

The Agreement

645.45f31/7-1249

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ACTION COPY

RETURN TO DC/R FILES WITHIN 14 DAYS, WITH A NOTATION OF ACTION TAKEN.

DMR

The agreement appears to reflect a greater desire on both sides to see that it is properly implemented. It specifies in respect to each commodity the form of export or import control to be applied. All commodities are either brought under the open general license or are made subject to free licensing to the extent of the quantity for which commitments have been accepted. There are no impediments to the flow of imports by stipulations laying down periodic quotas accompanied by lapsing clauses. Like its predecessor the new agreement leaves the actual supply of the quantities of goods specified to commercial channels, official action being confined to issuing the export or import licenses necessary to facilitate the trade.

Respectfully yours,

For the Ambassador:

Howard Donovan
Counselor of Embassy

Enclosure:

1. Five copies of Trade Agreement between India and Pakistan

CC - American Embassy, Karachi
All Consular Offices in India
SOA

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Trade Agreement between India and Pakistan.

Whereas the Government of India and the Government of Pakistan are desirous of continuing arrangements regarding the supply by each country of the requirements of the other, they have agreed as follows:-

ARTICLE. I.

The Government of India agree to permit the importation from and exportation to Pakistan and the Government of Pakistan agree to permit the exportation to and importation from India, of the commodities and goods specified in schedules A and B at least up to the limits for each class of goods mentioned therein during the period of this Agreement on the terms and conditions of this Agreement.

ARTICLE II.

With regard to such commodities and goods specified in the said Schedules as are, or may be, subject to export or import licences, the two Governments agree to grant, upon receipt of applications duly made, export or import licences at least up to the quantitative or monetary limits specified in Schedules A and B in respect of such commodities and goods in accordance with the law of the country and regulations and administrative practices of the Government granting the licences.

ARTICLE III.

During the currency of this Agreement, the two Governments may, by mutual agreement, alter, extend or supplement the Schedules to this Agreement.

P.T.O.

ARTICLE IV.

ARTICLES I and II of this Agreement are without projudice to the right of traders of either country ntering into business transactions in respect of goods and commodities not forming part of this Agreement subject, to and in conformity with, the laws and regulations of either country for the time being in force.

ARTICLE V.

The two Governments agree to render all reasonable assistance in facilitating the export and import of goods and commodities included in Schedules 'A' and 'B' and to consult each other in respect of any matter arising from, or in connection with, the exchange of commodities and goods between the two countries during the currency of and in accordance with, this Agreement.

ARTICLE VI.

Neither party shall re-export to any other country any scheduled commodity obtained by either country from the other in the form in which it was imported. Change of packing does not constitute change of form for the purpose of this Article.

ARTICLE VII.

Subject to seasonal considerations and delivery requirements indicated in Schedules 'A' and 'B' each country shall spread its purchases as uniformly and conveniently as possible.

ARTICLE VIII.

The two Governments agree to promote the contacts between the trade interests of the two countries.

P.T.O.

and undertake to give every reasonable facility for the import and export of commodities, and in particular to facilitate the use of the routes and methods of transportation shich are most economical and convenient.

ARTICLE IX.

This Agreement, subject to ratification by the two Governments, shall remain in force for a period of twelve months from the 1st July 1949 to the 30th June 1950, except where otherwise specified in the Schedules.

ARTICLE X.

In order to implement the Agreement in a smooth and orderly way the two Governments will exchange monthly progress reports and arrange meetings every other month between representatives of the two countries.

Done and signed in duplicate, in English, either copy being authentic, in Karachi on this twentyfourth day of June 1949.

C.C. Desai
for the Government of India.

Mohamad Ali
for the Government of Pakistan.

TRADE AGREEMENT BETWEEN INDIA AND PAKISTAN.

S C H E D U L E ' A '

EXPORTS FROM PAKISTAN TO INDIA.

Sl. No:	Commodity/Goods	Quantity/value	Remarks.
1.	Raw Cotton	450,000 bales	A minimum of 2.25 lakhs bales to be purchased by 28th February 1950 and the balance by 31st August 1950.
2.	Hides & Skins:		
	Buffalo hides	200,000 pieces	
	Cow hides	1,000,000 pieces	
	Skins, Goat	800,000 "	Goat skins in equal quantity from East and West Pakistan; Sheep skins 75,000 from East Pakistan and 625,000 from West Pakistan. Free licensing by Pakistan. Open General Licence by India.
	Skins, sheep	700,000 "	
3.	Raw Jute	4,000,000 bales (In terms of standard bales of 400 lbs)	Free of licence on both sides.
4.	Rape & Mustard seed.	15,000 tons	This is balanced by the additional supply of 5,000 tons mustard oil mentioned in item 10(a) of Schedule 'B'.
5.	Rock Salt.	2,000,000 Maunds.	

TRADE AGREEMENT BETWEEN INDIA AND PAKISTAN

S C H E D U L E 'B'

EXPORT FROM INDIA TO PAKISTAN.

Sl. No.	Commodity/goods	Quantity/value	Remarks.
1.	Asbestos Cement sheets.	2,500 tons.	India will issue export licences immediately. The article is on Open General Licence for import into Pakistan.
2.	Canvas.	150,000 yards	This item is on the Open General Licence for import into Pakistan.
3.	Chemicals:		
	(a) Sulphuric Acid	2,000 tons)	On Open General Licence for import into Pakistan and export from India.
	(b) Aluminium sulphate	2,000 tons)	
	(c) Hydrochloric acid.	270 tons)	
	(d) Nitric acid.	200 tons)	
	(e) Magnesium sulphate	800 tons)	
	(f) Ferrous sulphate	400 tons)	
4.	Coal	2,040,000 tons at the rate of 170,000 tons per month.	The figure of 170,000 tons of coal includes 1,000 tons of Hard coke per month. India will make every effort to supply an extra 30,000 tons per month if transport can be arranged. Maximum possible movement to be by rail.
5.	Cloth:		
	(a) Mill-made.	150,000 bales.	Import into Pakistan is on Open General Licence. Free licensing by India.
	(b) Handloom.	...	Exchange of certain varieties between Eastern Pakistan and India is under separate consideration.
6.	Cotton yarn.	100,000 bales.	At least 25,000 bales to be 20's and above. Free licensing by India for Pakistan counts below 20's Quotas for counts of 20's and above.
7.	Hardwood.	10,000 tons.	Malabar Jungle wood and similar varieties. Free licensing by India upto quota. Open General Licence for import by Pakistan.

Sl. No.	Commodity/Goods	Quantity/value	R e m a r k s.
8.	Jute manufactures.	50,000 tons.	Open General Licence on both sides.
9.	Myrabolams.	2,000 tons.	On Open General Licence both for export from India and import into Pakistan.
10.	Edible Oils:		
	(a) Mustard Oil.	30,000 tons plus 5,000 tons	Open General Licence on both sides. The additional quantity of 5000 tons is balanced by the supply of 15000 tons of mustard and rape seed mentioned in item 4 of Schedule A.
	(b) Groundnut Oil.	15,000 tons.	India will issue licences. Imports into Pakistan are on Open General Licence.
	(c) Copra Oil.	6,000 tons.	-ditto-
	(d) Vanaspati.	15,000 tons.	-ditto-
11.	Railway Stores:		
	(a) Underframe fittings.	Rs.150,000	Pakistan's additional requirements are :-
	(b) Fire Bricks.	Rs.100,000	Signalling & Interlocking materials. Rs. 150,000 Underframe fittings. Rs. 150,000 Fire Bricks. Rs. 350,000 Hydraulic fittings. Rs. 30,000 Electrodes Rs. 800,000 Split & Cotton pins. Rs. 500,000 Wheel Tyres Axles. Rs 500,000 Further consultation will be held with a view to utilising spare capacity in India for meeting these requirements.
12.	Paints & Varnishes.	2,500 tons.	Open General Licence on both sides.
13.	Linseed Oil.	6,000 tons	India will issue licences. Is on Open General Licence for import into Pakistan.

Sl. No.	Commodity/Goods	Quantity/value	Remarks.
14.	Bauxite	2,500 tons.	Is on Open General Licence on both sides.
15.	Electrical Steel Sheets.	500 tons.	India will issue export licences. Open General Licence for imports into Pakistan.
16.	Sea Salt.	2,000,000 Mds.	Open General Licence in India and Open General Licence for import in Pakistan by land and river and under licence by sea.
17.	Steel.	64,000 tons.	
18.	Pig Iron.	16,000 tons	Supply will be in quarterly instalments of 4,000 tons beginning from October-December 1949, and ending in July-September, 1950.
19.	Tobacco (Flue-cured).	2,000,000 lbs.	Open General Licence for export by India and import into Pakistan.
20.	Ferrosilicon.	100 tons	India will confirm later.
21.	Ferromanganese	100 tons	-ditto-
22.	Pitching Stone and Ballast.	7,500,000 c.ft.	
23.	Washing soap.	5,000 tons.	

NOTE:-

Cigarettes, Matches and Toilet Soap have been suggested by India. It is noted that they are on Open General Licence for export from India and import into Pakistan.

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

AIRGRAM 850

From: American Embassy,
Karachi, Pakistan

Secretary of State,
Washington

Date: July 27, 1949

Date of Mailing: [illegible]
Recd

A-347, July 27, 1949

Aug. 4, 1949 5:13p

The following item appeared in the CIVIL AVIATION GAZETTE, dated July 24, 1949:

"INDO-PAKISTAN PIECEGOODS
Pakistan Textile Association's Concern

"At their meeting held on July 20, the Pakistan Textiles Importers and Exporters Association passed the following resolution:

'This Association views with grave concern the prospect of imports of Indian piecegoods into Pakistan, following the new Indo-Pakistan trade agreement and strongly urges the Pakistan Government that, in the interest of the textiles trade, development of diversified imports, the handloom cottage and textile industry of Pakistan, Indian cotton textiles should not be allowed to be imported without the payment of non-preferential rates of duties imposed on similar goods.

'It also requests the Government to impose quantitative restrictions so as to enable the imports to be limited upto the agreed figure of 150,000 bales. It warns the Government that any discrimination in favour of India, in the matter of duties, will result in the swamping of the market by Indian goods, to the exclusion of imports of cotton goods from other countries, who have been our main suppliers during the time of our greatest need.'"

Reference is also invited to this Embassy's report No. 93 dated June 28, 1949, in which it was reported that those interested in handloom weaving complained of cheap imports of cotton textiles. It is of special interest, that textile importers who have begun to build up trade with Italy and other countries are loathe to see India return to the market as a supplier of most of Pakistan's cotton. The current bitterness which beclouds India-Pakistan relations must, of course be partially responsible for such [illegible] rules as that taken by Association.

Doolittle

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file Impl 8-5-49 Com agr Labor Tar NSRB

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DIVISION OF
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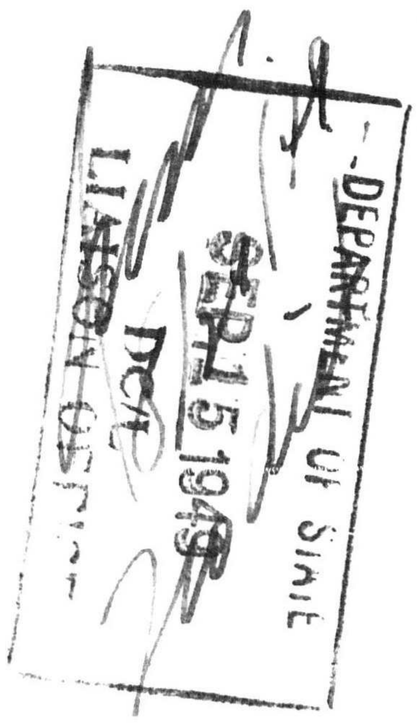
Rec'd August 27, 1949
7:01 a.m.

DIVISION OF SOUTH ASIAN AFFAIRS
SEP 2 9 1949
DEPARTMENT OF STATE.

FROM: Moscow

TO: Secretary of State

NO: 2162, August 27, Noon.



In talk August 26 with Indian Charge, Dayal, latter stated he considerably impressed by Soviet press attention given reception Soviet Trade delegation in Pakistan. He coupled this observation with mention recent removal British Governors from West Punjab and NWFP (Northwest Frontier Province) and wondered whether Pakistan without leadership Jinnah was not getting beyond its depth in "international water.

Somewhat amusing in view vagaries GOI foreign policy since independence that Indians now disturbed similar tendencies GOP.

Sent Department, repeated New Delhi 37, Karachi 17, London 217.

KIRK

SW:HJC

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45F31/8-2749

VJ SECRET FILE

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INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

1977

FROM: LONDON
DATED: OCT 10, 1949
REC'D: Oct. 13, 1949; 10:30 a.m.
SENT: Unknown

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Secretary of State
Washington

A-1837

India-Pakistan Trade Talks (FOR STATE, TREASURY AND ECA)

The following article on the above subject appeared in the FINANCIAL TIMES, October 6, 1949, dated Karachi, October 5:

"A meeting of representatives of India and Pakistan is likely to take place, presumably at New Delhi within the next fortnight, to discuss issues arising out of Pakistan's decision not to devalue its rupee, the Indian Government's Trade Commissioner in Pakistan said today.

"The feeling is growing that in the interests of both Dominions a working arrangement should be arrived at so that trade between India and Pakistan, now at a standstill, may be resumed at an early date."

HOLMES

MR. BLISS
MR. HEBBARD
MR. HARLEY
MR. BERNSTEIN
MR. ZAGORIN

BZagorin:go
(10/6/49)

XR 845f.5151

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OCT 13 1949

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645.45F31/10-1049

INCOMING AIRGRAM

DEPARTMENT OF STATE — DIVISION OF COMMUNICATIONS AND RECORDS — TELEGRAPH BRANCH

INTERNATIONAL RESOURCES DIVISION
DEPARTMENT OF STATE

Action Taken Info

Date of Action 1949 OCT 19 PM 12 52

Action Office Symbol OIR

Name of Officer

Direction to DC/R

INTERNATIONAL TRADE POLICY

MESSAGE CENTER

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DEPARTMENT OF STATE
LEGAL OFFICE

FROM American Embassy
Karachi, Pakistan

Date October 14, 1949

Rec'd. Oct. 19, 1949
9:17 a.m.
Date of mailing unknown

A-536, October 14, 1949

Pakistan has recently been facing "extreme difficulty" obtaining her agreed quota of coal from India, according to the press of October 11. This is one of several critical spots where India can hit Pakistan's economy there it hurts. Of Pakistan's estimated annual requirements of coal of 3,300,000 tons, India has been supplying 2,200,000 tons. This coal is used to run electric power plants and a large part of the railway system. Locally produced coal (about 400,000 tons annually) is of inferior quality. The balance of Pakistan's needs are imported.

It is reported that the coal position of the country has been receiving the attention of high Pakistan government circles and that a proposal is now under study to send a coal purchasing mission abroad to seek "more reliable" suppliers.

The Embassy is privately informed that so far as the East Bengal railway is concerned experiments have proved that no wood can be substituted for coal in the present locomotive stock. There would be, however, a curtailment of railway service should this change-over be necessary. The railway administration has already ordered stockpiles of fuel wood to be accumulated in East Pakistan.

Meanwhile the first victim of the partial coal embargo is the city of Dacca, where a severe restriction upon the consumption of electric current has just been imposed. Stocks of coal there, already low, are not being replenished from East Bengal, according to reports.

[illegible]

DeWitt C. Blietz, Jr.

DeWitt:mak

Copies to Embassy, New Delhi, Dacca

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645.45F31/10-1449

FORM DS-323
7-18-46

OUTGOING AIRGRAM

525 CLASSIFICATION

Department of State

CONFIDENTIAL

NO._____

Washington,

525

AMEMBASSY,

KARACHI (PAKISTAN).

A-252, Dec. 6, 1949

645.45 E31/10-1449
XR 845E.50

Reference is made to the Embassy's airgram No. 536 dated October 14, 1949 regarding the visit to Karachi of Mr. Arthur G. Doyle for the purpose of conferring with Pakistan officials on policy toward American film remittances.

Mr. John G. McCarthy, Vice President of the Motion Picture Association of America, has sent to the Department a further letter on this subject from which the following paragraphs are quoted:

"I was, of course, disappointed that our Embassy at Karachi felt it was inexpedient at the time of Mr. Doyle's visit to press for a definite commitment from the Pakistani Government or the State Bank. Doubtless there were reasons judged good and sufficient by the Embassy for this recommendation. I also note, however, that 'The Embassy has been aware of the strenuous efforts being made to solve Pakistan's immediate trade and foreign exchange problems...'. If this question is being actively examined by the Pakistani authorities it would appear highly probable that various separate requests of their export-import-exchange problem are being systematically considered, and that in all likelihood imported motion pictures constitute one such separate request.

XR 845E.5151

"If that is the case, it is not at all impossible that our position may suffer from not being presented to the Pakistani authorities before important decisions have been taken. It is therefore my thought that we should pursue our interests with sufficient promptness as to avoid any such risk, and subject to your approval I should like herewith to request that you instruct our Embassy at Karachi to keep 'close tabs' on this matter and endeavor to expedite favorable consideration by cognizant Pakistani officials. Prompt evidence of the interest of our Embassy in this particular problem might well be decisive in effecting results favorable to our member companies."

645.45E31/10-1449

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FORM DS-323
7-18-46

OUTGOING AIRGRAM

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Washington,

It is requested that the Embassy take such action as it deems appropriate in this matter and report to the Department.

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DIVISION OF
COMMUNICATIONS AND RECORDS
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DEPARTMENT OF STATE

INCOMING TELEGRAM

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Control 9101

Rec'd October 24, 1949
5:55 a.m.

FROM : Karachi

TO : Secretary of State

NO : 464. October 24, 10 a.m.

Following for SCAP trade Tokyo from Snell.

"This message in five parts.

PART ONE. Economic boycott between India and Pakistan caused by non-valuation Pakistan rupee has curtailed trade between the two countries of coal, steel and jute. India increased coal prices to Pakistan approximately seven dollars per ton. Predevaluation price approximately eighteen dollars overland and twentyfour dollars via water. Pakistan expressed very keen interest in purchasing Japanese coal providing price competitive (approximately 120,000 tons required immediately however present port facilities Karachi and Chittagong can handle only 16,000 tons monthly. Believe contract could be obtained for several months supply providing price reasonable. France also offering coal here. Specification requirements as follows: volatile (medium) 27 to 37 percent ash plus* moisture content 15% maximum, sulphur less than 1%, B. T. U. per pound 13,000 and over, screened over two inch mesh (smaller not to exceed 10%). Quote prices f.o.b. and c.i.f. (via SCAJAP vessel) Karachi and Chittagong ports. Quote other types of this specification not available. Urgent reply requested.

PART TWO. Large quantities of steel needed. Details being airmailed. Quote prices immediately on cast iron pipes three inches and up also delivery time.

PART THREE. Request immediate quotations and specifications be sent Director General Post and Telegraph Department, Ministry of Communications, for telephone cord machinery, capacity 10,000

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16-52018-1 U.S. GOVERNMENT PRINTING OFFICE

845.00/10-2449

p- 464, October 24, 10 a.m., from Karachi

capacity 10,000 cord annually, will [illegible]
two or three conductor cords.

PART FOUR. Pakistan Government requested [illegible]
locomotives, spare boilers, tank cars and passenger
wagons. Tenders due by 12 November. [illegible]
did not meet specifications required. [illegible]
specifications airmailed to MIT.

PART FIVE. Will remain here [illegible]
departing for Delhi. Reply Embassy [illegible]

[illegible]

is received.
EMB:KC

WEBB. Passed to Tokyo 10 a.m. [illegible]

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DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

INCOMING TELEGRAM

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1949 OCT 24 AM 11 13

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Control 9096

Rec'd October 24, 1949
5:46 a.m.

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Action: NEA
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FROM : Karachi

TO : Secretary of State

NO : 462, October 24, 1 p.m.

PASS SCAP TOKYO.

Adams requested advice SCAP (REFDEPTEL 399 October 20) message filed with Embassy for transmittal through Department and POLAD to SCAP.

India requires entire export surplus estimated 486,000 tons Pakistan wheat but Pakistan prior to difficulties arising from non-devaluation dispute willing deliver only 175,000 tons under old commodity agreement in line announced decision maintain adequate reserves wheat stocks. With all inter-dominion agreements based on parity units of currency Pakistan holds view all agreements abrogated by India. Embassy believes Pakistan intended offer part but not all surplus wheat to Japan. Adams was informed by Pakistan official that India would be given first refusal exportable quantity and that Japan could purchase if India took no action. Embassy advised Adams he should make sure offer had been made and refused before going further with matter.

DOOLITTLE

JK:KC

NOTE: Relayed SCAP, Tokyo October 24 7 a.m. EMB

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16-52518-1 U.S. GOVERNMENT PRINTING OFFICE

645.45F31/10-2449

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FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

SECURITY : UNCLASSIFIED

PRIORITY: Air Pouch

TO : Department of State

645.45f31/10-2749

FROM : KARACHI 425 October 27, 1949

REF : Report No. 159, October 5, 1949; Airgram A-536, October 14, 1949

TRC MEA OLI ITP

SUBJECT : PLANNED RESUMPTION OF CONVERSION OF PAKISTAN LOCOMOTIVES TO OIL BURNERS

Com ICC Tar NSRB 645.45f31/10-1449 ITP

There is reproduced below in full a press item from the Civil and Military Gazette (October 27, 1949) regarding plans of the Pakistan Government to resume converstion of its coal-burning locomotives to oil-burning engines. The original conversion program began in 1947, but came to a halt for the reasons stated in the press account. Extreme uncertainty with respect to future coal supplies from India, Pakistan's traditional supplier of large amounts of that fuel, has spurred plans for resumption of work on conversion.

1 x R

An American oil man in Karachi guessed that it would take a minimum of a year to import and install storage tanks necessary to keep a large part of the railway system running on oil. There is no doubt that it will take longer than a year to make anything approaching 100 percent conversion, given the tight fire-brick supply situation and the fact that there is only one workshop in West Pakistan that can undertake the considerable work involved in converting Pakistan's existing type of locomotive to oil. The text of the article follows:

"OIL TO REPLACE COAL IN PAKISTAN'S RAILWAY ENGINES

"The Pakistan Government propose to resume conversion of coal-burning railway locomotives to oil-burning engines, it was reliably learned in Karachi yesterday.

"The uncertain position regarding the supply of coal from India, is understood to be the root cause.

845f.77 XR

"Two hundred of the 850 locomotives of the Pakistan railways are already oil-burning. These were converted during last year. The process of conversion was, however, suddenly stopped during December last on account of unsatisfactory supply of fire bricks from Jubbulpore in India, on which Pakistan was then mainly depending for her requirements.

"The supply position regarding fire bricks has of late shown some improvement. Though Pakistan has two fire clay burning factories at Jhelum and Jungshahi, their output is reported to be far short of the requirements of Pakistan railways for their conversion scheme and the latter will, it is pointed out, therefore have to depend largely on countries like the U.K, France, Belgium, and Switzerland, which can meet the requirements of Pakistan.

For Dept. use only.
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"Another pre-requisite of launching the conversion scheme is proper supply from abroad of equipment for ground petroleum tanks to store the oil. Pakistan is understood to be trying to secure this equipment from foreign countries, and, it is hoped, will meet with success in her efforts. (APP) "

For the Charge d'Affaires ad interim:

Franklin W. Wolf

Franklin W. Wolf
Counselor of Embassy for Economic Affairs

Copies to Lahore, Dacca

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

INCOMING TELEGRAM

ACTION COPY

21382

DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT

NOV 14 1949

DEPARTMENT OF STATE

CONFIDENTIAL

Control 4789

Rec'd November 11, 1949
1:28 p.m.

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FROM: Karachi

TO: Secretary of State

NO: 510, November 11, Noon

REDEPTEL 428, November 9:

OFFICE OF FINANCIAL & DEVELOPMENT POLICY
NOV 14 1949
DEPARTMENT OF STATE

XR
845.61311

(1) A. Indonesian-Pakistan agreement July 1948 provided for supply 175,000 tons wheat India if surplus to Pakistan needs. Reaffirmed April 1949, and at end August 1949 Pakistan informed India definitely able supply full amount.

B. Pakistan would have delivered full amount whether devaluation intervened or not. Joint Secretary Food Ministry states approximately half million tons owned by GOP stored GOP godowns now.

(2) A. Pakistan prior devaluation offered increase supply up to approximately 400,000 tons inclusive original 175,000 tons. No additional offer since devaluation. Prices rupees 12 annas 8 Lahore rupees 13 annas 8 Karachi are FOB inclusive bags. Joint Secretary Ishaque studying world prices but believes all factors considered, present price below US price but above international wheat agreement price. States confidentially he is asking cabinet permit lowering price to equal IWA level. Only two grades wheat in Pakistan, seed and ordinary. Prices relate to ordinary and not to 10,000 tons damage by rains. Ishaque should arrive in Washington for FAO meeting around November 17 and be available discuss matter with Department.

Ishaque states India rejected wheat because expected receive million tons US wheat as gift or at bargain price.

B. Pakistan offered SCAP 100,000 tons whether India takes any or not. Indian refusal makes Pakistan willing sell

additional

DC/L OFFICE

11-12-49

CONFIDENTIAL

645.45F31/11-1149

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16-52918-1 U S GOVERNMENT PRINTING OFFICE

additional wheat SCAP or any other buyer. SCAP reaction October 28 "very much interested".

Kiriyama member SCAP mission now here states Tokyo found price high, but intends pursue matter if they are lower.

C. GOP has wheat in own godown, hence no doubt about ability supply amounts offered.

Despatch 492, November 11 follows.

Department pass POLAD Tokyo.

DOOLITTLE

RSF:CWD

Note: Passed POLAD Tokyo 11/11/49, 6 p.m., JRL

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

INCOMING TELEGRAM

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Joint reply with OFD 12-4-49. File

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1949 NOV 14 AM 8 35
Control 5097

Rec'd November 13, 1949
12:36 a.m.

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Action: NEA
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FROM: New Delhi

TO: Secretary of State

NO: 1400, November 12

Re Pakistan's recent offer of wheat to India. India-Pakistan agreement for mutual supply of certain essential commodities signed in Karachi May 26, 1948, specified in annexure 2 that whereas India requested 100,000 tons rice and 200,000 tons wheat during 15 months ending August 31, 1949 "Pakistan agrees to supply 175,000 tons of food grains (mainly rice) unless there is serious failure of crop i.e., if the rice crop is 4 annas or more below average of past five years. Pakistan further agrees to do its best to improve upon this quantity".

Newspapers November 10 credit official of Indian Government with following explanation:

1. At subsequent Inter-Dominion conference December 1948 Pakistan said it could not then provide either wheat or rice to India but would try to honor commitment of 175,000 tons of wheat if spring harvest satisfactory.

2. Until September 10, 1949, Pakistan had not declared any wheat surplus for shipment to India except 20,000 tons seed wheat which was bartered for equivalent quantity wheat atta supplied from Calcutta to east Bengal.

3. On September 10, Pakistan informed India of its ability supply 40,000 tons wheat and possibly additional 20,000 tons. India agreed buy this quantity and proceeded discuss terms.

4. On October 10, 1949 three weeks after devaluation Pakistan offered India full 175,000 tons wheat payment to be made in convertible sterling. Reply was requested by October 15.

5. India

PLAIN

DEPARTMENT OF STATE
NOV 14 1949

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PLAIN

-2-, #1400, November 12, from New Delhi.

5. India gratefully acknowledged offer but replied that question of purchasing wheat from Pakistan could not be further considered until agreement had been reached on relation between Indian and Pakistani rupee. Governing consideration was that cost of Pakistan wheat in Calcutta or Bombay would come to about rupees 19, annas 12 per maund compared with about rupees 17 from United States rupees 14, annas 6 from Australia or Argentina and control price of rupees 13, annas 8 in India.

6. India willing to buy wheat from anywhere provided prices are suitable.

7. Pakistani officials in Karachi say that Pakistan Food Ministry not perturbed over India's reply as negotiations for sale of large quantities to certain countries in Southeast Asia and Middle East already under way and announcement to this effect to be expected soon as agreement reached.

8. "Another propaganda stunt" and "another facet of Pakistan's persecution complex" is way Food Ministry official is said to have characterized Pakistan's offer and Pakistan's allegation that India had refused it because economic war against Pakistan.

Pouched Karachi.

DONOVAN

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DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

[redacted]

DEPARTMENT OF STATE

INCOMING TELEGRAM

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Mr. Wm. N. [illegible]
See [illegible] copy of this
is forwarded to [illegible]
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CONFIDENTIAL

Control 5124

Rec'd Nov. 13, 1949
8:53 a. m.

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FROM: New Delhi

TO : Secretary of State

NO : 1405, November 13, 9 a. m.

OFFICE OF FINANCIAL & DEVELOPMENT POLICY
NOV 14 1949
DEPARTMENT OF STATE

XR
845.61311
845f.61311

DEPTEL 804, November 9.

GOI June 1949 asked Pakistan for previously mentioned 175,000 tons. Pakistan replied position uncertain, would review position October. GOI food secretary confirms that Pakistan wheat offered September 10 was not 400,000 but 40,000 plus possibly 26,000 tons. Would prefer Pakistan wheat despite lower grade because soft wheat makes better chapatis.

No evidence GOI refusing to buy available wheat from non-dollar countries at current world price. GOI believes Pakistan prices since devaluation, above world price. Is also alarmed at effect of international wheat agreement provision permitting sharp rise in price of Australian wheat contrary to intended price stabilization.

Sent Department; repeated Karachi 89.

DONOVAN

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DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
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16 52018-1 U. S. GOVERNMENT PRINTING OFFICE

INCOMING AIRGRAM

DEPARTMENT OF STATE DIVISION OF COMMUNICATIONS AND RECORDS TELEGRAPH BRANCH

MESSAGE CENTER
Telegram sent
12-2-49- file-LW
1949 NOV 29 PM 1 39

AIRGRAM

From: American Embassy
New Delhi, India

TO: DEA

UNCLASSIFIED

Date of telling: Nov. 25, 1949

Secretary of State,
Washington, D.C.

Date rec'd: Nov. 23, 1949 11:45 a.m.

A-1216, November 16, 1949.

Re Embtel 1400, November 12, the Office of the High Commissioner for Pakistan in India on November 14 issued the following press release on the same subject:

"PAKISTAN WHEAT OFFER TO INDIA

"The Government of Pakistan have noticed a Press Note issued by the Indian High Commissioner in Pakistan which does not appear to present the facts about Pakistan's offer of 175,000 tons of wheat to India correctly.

"Under the Inter-Dominion Essential Commodities Agreement, Pakistan undertook, apart from token exports to other countries, not to export foodgrains without offering them to India in the first instance. It was agreed that the question of supply of wheat by Pakistan to India would be reviewed in October, 1949.

"In keeping with its undertaking, Pakistan made an offer of 66,000 tons of wheat to India even before October and offered the full quantity of 175,000 tons on October 10. Any problems arising out of devaluation had no connection with this offer.

"As regards the price, it is admitted that India's decision to devalue her rupee has raised, in terms of the Indian rupee, the price of Pakistan wheat as also that of U.S.A., Argentinian and Australian wheat. But Pakistan wheat prices still remain competitive.

"It has been alleged that the post-devaluation cost of Pakistan wheat in Calcutta and Bombay would amount approximately to Rs. 18/12/- a maund as against Rs. 17 maund for U.S.A. wheat and Rs. 14/8/- a maund for Australian and Argentinian wheat.

"It

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DEPARTMENT OF STATE
DEC 15 1949
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845.45F31/11-1649

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It should be noted that the wheat offered by Pakistan normally from West Punjab and Bahawalpur which is normally shipped in the wheat deficit areas of Northern India and is, therefore, misleading not to take note of this fact. The comparative C.I.F. prices of Pakistan wheat at Bombay and Calcutta with those of imported wheat at these ports. The fact that the cost of Australian and Argentinian wheat in deficit areas of Northern India, say Delhi, even according to the prices quoted above, would be about Rs. 13/12/- per maund and that of U.S.A. Rs. 10/5/- per maund while Pakistan wheat would cost about Rs. 12/5/- per maund all in Indian rupees. The fact that payment for Australian and U.S.A. wheat will have to be made in dollars is also important."

The Embassy was previously informed by GOI Food Secretary that while Pakistan wheat at Delhi was not so far from the cost of other imported wheat as it would be in Calcutta or Bombay nevertheless the post-devaluation cost of Pakistan wheat was still too high to be competitive in Delhi. The Food Ministry said the cost of Pakistan wheat would be Rs. 13/12/- as compared with U.S. wheat Rs. 10/5/- and Australian wheat Rs. 10/12/-. Pakistan wheat is unsuitable for northern India because it is softer and different in the bread type they are accustomed to use. It is felt by some Pakistan wheat if at a price disparity, could be marketed.

DONOVAN

Copies to:

Consulate General, Bombay
Consulate General, Calcutta
Consulate General, Madras
Consulate General, Lahore
Embassy, Karachi, Pakistan
Office of Foreign Agricultural Relations,
U. S. Department of Agriculture.

JCunningham

DIVISION OF
COMMUNICATIONS AND RECORDS
TELEGRAPH BRANCH

DEPARTMENT OF STATE

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DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
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DEPARTMENT OF STATE

Control 7735

Rec'd November 18, 1949
4:18 p.m.

FROM: New Delhi

TO: Secretary of State

NO: 1429, November 18, 1 p.m.

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845.6131 11

DEPARTMENT OF STATE
DEC 21 1949
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Re DEPTEL 826, November 16 quoting Karachi's 510, November 11. GOP has never offered GOI 400,000 tons wheat. Gupta has shown Taylor complete dossier since June substantiation facts our EMBTEL 1400, November 12, and 1405, November 13. GOP letter BP-99, September 10 signed Ijaz Ahmed (Department Secretary, GOP Ministry Food, Agiculture, Health) states: "We offer you the following quantities of indigenous wheat from the current crop:

(A) 40,000 tons as surplus,

(B) 26,000 tons as surplus subject to the condition that an equal quantity will be given by GOI to GOP for East Bengal ex-Calcutta in case Pakistan ask for it,

(C) 25,000 tons in exchange for an equal quantity of wheat to be delivered by GOI for East Bengal ex-Calcutta".

Month later GOP after devaluation increased offer to 175,000 tons at 12 rupees, 4 annas per maund bagged West Punjab or 12 rupees Bahawalpur or Khairpur plus 1 rupee, 4 annas inspection fee plus 13 rupees cess per 100 bags all Pakistan rupees payable in free sterling and asked reply by October 15. GOI had accepted September 10 offer subject to clarification minor details and after devaluation expressed willingness accept delivery at pre-devaluation delivered cost. October 10 offer was declined pending settlement rupee value.

GOP price 12 rupees 4 annas per maund equals Indian currency 17 rupees 10 annas plus 11 annas 6 pies freight to border plus 6 annas freight into Northern India plus 2 annas inspection and cess. Total 18 rupees 13 annas 6 pies.

Australian

645.45F31/11-1849

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CONFIDENTIAL

-2- #1429 November 18 1 p.m. from New Delhi.

Australian wheat basis 16 Australian shillings per bushel and 45 shillings freight per ton has cost about 15 rupees 12 annas bagged and delivered Delhi.

IWA post devaluation price Australian bulk wheat 11 rupees 12 annas per maund f.o.b. plus 3 rupees freight to Bombay plus 1 rupee 4 annas freight to Delhi plus 12 annas for bag plus 8 annas for handling at Bombay. Total 17 rupees 7 annas. Higher cost since devaluation under protest. GOI calculates new Argentine barter for wheat cost $1.75 instead of IWA $1.80.

Gupta personally willing buy all wheat Pakistan will offer at IWA equivalent price. Has confidence in Ijaz Ahmed former colleague but anticipate negotiation difficulties other quarters. He agreed exchange rate issue avoidable by posing wheat transaction as barter for goods from India.

Sent Department 1429, repeated Karachi 92.

DONOVAN

WE : MW

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FORM DS-322
7-18-46

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DEC 2 1949

AMEMBASSY,

NEW DELHI.

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REURTEL 1429 and UR A-1216.

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1. Deshmukh stated GOI will not buy wheat or anything else from PAK at official PAK exchange rate until rate confirmed or revised by IMF. Stated GOI willing, however, buy wheat on terms equivalent world market price through barter deals, e.g., exchange IND mustard oil and other commodities for PAK wheat. Will investigate possibility such barter deals upon return IND, since appreciates GOI purchase all soft currency wheat offered on reasonable terms prerequisite to further US consideration special arrangements involving additional dollar wheat.

2. DEPT has RECD confidential indications GOP might respond favorably GOI proposal barter wheat on terms equivalent world market price c.i.f. IND. Ishaque, Joint SECY PAK Food Ministry, states here if wheat not sold IND, must be sold SCAP and others to avoid deterioration due poor storage. Asked DEPT help in facilitating PAK-SCAP wheat NEGOTS.

3. Request EMB Delhi and EMB Karachi cable DEPT RESP views RE most efficacious US procedure for encouraging IND-PAK wheat deal. EMB Delhi may, at its discretion, emphasize to GOI that purchase all PAK wheat offered reasonable terms may be prerequisite further US

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7-18-46

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Washington

US consideration specially arranged US wheat for IND, although SHLD make clear no RPT no commitment offered. EMB Karachi may, its discretion, encourage GOP receptiveness, cooperation SHLD GOI initiate NEGOTS trade deal including wheat.

Acheson

ACHESON (Sent)

CODE ROOM: PLS RPT to AMEMBASSY, KARACHI, AS 468.

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NEA:SOA:ELWhite:km
12/2/49

ITP (cleared by H.O.)

Changes cleared with original drafter (Mr. Owen) by L.W.

Agriculture (cleared with Mr. Andrews by L.W.)

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Control 1615

Rec'd December 5, 1949
6:55 a.m.

FINANCIAL & DEVELOPMENT POLICY
DEC 5 1949
DEPARTMENT OF STATE

FROM : Karachi

TO : Secretary of State

NO : 571, December 5, Noon

Re DEPTEL 468.

Mohammed Ali Pakistan Secretary General informs me that having notified GOI view its refusal buy Pakistan wheat GOP was free offer other buyers he received letter from Desai asking that India be informed of offers made so GOI could consider matching them. Answer was sent stating this unsatisfactory to GOP as would effectively prevent concluding deals with other countries without great delays and suggesting GOI make firm counter offer now for quantities desired. He reiterated that present Pakistan offer rupees 12 8 annas at Lahore would place wheat in Indian consuming centers below world CIF prices Indian ports as internal transport would wipe out difference. GOP would be receptive any reasonable offer either barter or cash. Wheat is now being smuggled to India at rupees 20 and Prime Minister Bahawalpur state has requested permission legalize smuggling at rupees 22. Whole situation is fine example human folly.

Sent Department 571, pouched Delhi.

DOOLITTLE

BB:KC

DEPARTMENT OF STATE
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DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
DEC 5 1949
DEPARTMENT OF STATE

No action necessary
12/7/49 Howen Gordon
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Control 2226

Rec'd December 6, 1949
9:36 a.m.

FROM: New Delhi

TO: Secretary of State

NO: 1508, December 5, 11 p.m.

DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT
DEPARTMENT OF STATE

DEPTEL 871, December 2.

GOI Food Secretary informed Agricultural Counselor today that GOI was replying favorably to query from Indian Embassy Washington concerning India-Pakistan barter for Pakistan wheat at competitive price. Delhi could use 12,000 tons monthly until April harvest. Western UP markets could absorb balanced of 175,000 tons at four to six annas per maund lower price than Delhi. GOI surmised that additional Pakistan tonnage was Western Pakistan rice transferable to India if Eastern Pakistan drew rice from Burma account exchange rate. GOI understood US desired that GOI purchase all Pakistan wheat offered reasonable terms. GOI negotiations would be made Delhi but Department might wish discuss matter further with Embassy Washington. Agricultural Counselor will pursue informal discussions with Food Secretary and I am taking advantage every opportunity during informal discussions here at high levels to persuade GOI to adopt more conciliatory attitude with GOP re wheat, jute, cotton and other trade problems arising from devaluation. Believe informal rather than formal approaches more likely to achieve results.

Sent Department 1508; repeated Karachi 100.

HENDERSON

RB:HJC

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DEPARTMENT OF STATE
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DEC 27 1949

FORM DS-322
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DEC 13 1949
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AMEMBASSY,

KARACHI.

492

Request (URTEL 571 DEC 5) cable best estimate obtainable by discreet inquiry:

a. Quantities exportable wheat from 1949 PAK crop committed to date by countries destination;

b. Quantities involved in pending trade NEGOTS, progress, and anticipated outcome NEGOTS each case by countries.

Acheson

ACHESON

645.45F31/12-549

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1949 DEC 13 PM 5 32

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ED (cleared with Mr. Owen by L.W.)

ER (cleared with Mr. Highby by L.W.)

CE

AGRI (cleared with Mr. Rossiter by L.W.)

H/CS

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7-18-46

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5 P.M.

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DEC 16 194

PRIORITY

AMEMBASSY,

NEW DELHI.

911 nc

EMBTEL 1508 Dec 5.

845.5151/11-3049
xR 645.45 f 31
845 f. 5151

1. Dept concurs in emphasis on informal approaches.

2. Karachi Tel 554 Nov 30 and conversations here indicate total PAK wheat export availability about 500,000 tons (no rice included) unless heavy sales made recently. Request you ascertain informally and cable maximum quantity on which GOI willing NEGOT with GOP.

xR 845.5151
845 f. 5151

3. EXEC branch US GOVT has secured appropriated funds for JAP food needs. Authorization and funds to meet IND needs for US wheat by grant or on other special assistance basis (as distinct from deferred-payment basis) WLD be difficult and uncertain. In view this situation and considerations mentioned PARA two DEPTEL 871 DEC 2, DEPT welcomes IND-PAK trade arrangement including wheat as at least partial substitute possible US aid.

xR 845.6131

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on question wheat aid to India

4. In light unresolved difficulties in US, suggest EMB refrain from for such aid encouraging early proposals by GOI and if proposals made accept for transmission without comment.

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Security: CONFIDENTIAL PRIORITY: AIR POUCH

28
REC'D
JAN 9

To: Department of State

From: KARACHI 681 December 27, 1949

Ref: Department's A-252, December 6, 1949

Subject: Pakistan Dollar Remittances for American Films.

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Pursuant to the reference, the Embassy has again checked with the State Bank of Pakistan to determine whether any policy has been established as yet on dollar remittances for American entertainment motion pictures. Mr. KENNAN of the State Bank has advised that while the matter is under consideration the Government is not yet prepared to discuss the subject with a representative of the Motion Picture Producers Association of America. Mr. Arthur G. DOYLE, 20th Century Fox film representative in Bombay, who is also representing the Motion Picture Producers Association of America in this matter, has been advised accordingly.

The Embassy will check periodically to determine when the Government is willing to discuss the matter and will advise Mr. Doyle and the Department at the proper time.

For the Charge D'Affaires a.i.

Franklin W. Wolf

Franklin W. Wolf
Counselor of Embassy
for Economic Affairs

File No. 501
DRNewsom/jbl

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1950 JAN 9 AM 11 16

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Letter drafted 1-13-50 to Mr. John McCarthy, MPAA
L. Frank
CP

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OFFICE OF
INTERNATIONAL TRADE POLICY
JAN 13 1950
DEPARTMENT OF STATE

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FEB 21 1950

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FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

OFFICE OF INTERNATIONAL TRADE POLICY
JAN 19 1950
DEPARTMENT OF STATE

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SECURITY : CONFIDENTIAL PRIORITY: AIR POUCH

TO : Department of State

FROM : NEW DELHI 1129 December 12, 1949

REF :

645.45f31/12-1249

Reaction. File

1949 DEC 22 AM 9 22

RECD DEC 19

ACTION ITP NEA

INFO FR DCR NEA OFD COM TAR

SUBJECT : CONVERSATION WITH SIR GIRJA, SECRETARY-GENERAL, MINISTRY FOR EXTERNAL AFFAIRS, REGARDING INDO-PAKISTAN TRADE RELATIONS WITH PARTICULAR REFERENCE TO JUTE.

In the course of the conversation which I had on December 6 with Sir Girja Shanker Bajpai, Secretary-General of the Ministry for External Affairs, I outlined to him the situation with respect to jute as set forth in various communications received from the Departments of State and Commerce.

I said that during the last few years American consumers of jute, because of difficulties in satisfying their needs from India, had been turning in increasing numbers to the use of substitutes, particularly cotton and paper bags. If, as a result of the recent action of the Indian authorities, it would be impossible for Indian jute exporters to fulfill their contracts with American importers, many additional American jute consumers might in disgust turn definitely and finally to jute substitutes.

The United States Government was particularly concerned, I pointed out, because it was anxious for India to have dollars, and jute was one of the chief earners of dollars.

Sir Girja said that he realized the importance and urgency of the matter and would take it up at once at a high level. I should realize of course, he added, that the Government of India was having great difficulty in meeting demands for jute in view of the fact that it was not able to buy jute from Pakistan because of the high prices which Pakistan was asking.

I said that I understood that the action of the Indian authorities with respect to jute was one of the results of the economic strife at present being carried on between India and Pakistan. I did not wish to appear to be making suggestions to the Government of India with regard to its foreign policies; nevertheless, I was sure he would understand my motives in expressing the earnest hope that India make every effort to come to an understanding with Pakistan with regard to India-Pakistan trade, particularly trade in jute, cotton, and grain. Both India and Pakistan were seriously injuring their respective economic situations by waging this senseless controversy. Apparently the Government of neither country was prepared to make a conciliatory move towards the Government of the other.

FILED JAN 19 1950

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LWHenderson/mbf 12/9/49

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India, as the more powerful and perhaps the more advanced country could, it seemed to me, afford to make the first move. Instead of losing face it would increase its international prestige if it would approach Pakistan in a conciliatory manner in an endeavor to work out compromises in the prices of the raw materials which it was accustomed to purchase from Pakistan.

Sir Girja said that he thoroughly agreed with me but that in the present emotional frame of mind of some of the Indian political leaders it was difficult to persuade them to think or act rationally with regard to problems relating to Pakistan. He felt that he had done everything which he could possibly do in this matter for the time being. He suggested that I might have occasion, however, to discuss the situation with some of the Economic Ministers.

Loy W Henderson

Loy W. Henderson
Ambassador

gtm

FOREIGN SERVICE OF THE UNITED STATES OF AMERICA

SECURITY : CONFIDENTIAL PRIORITY: AIR POUCH

TO : Department of State

645.45f31/12-1249

FROM : New Delhi 1126, December 12, 1949

REF :

SUBJECT : Trade Relations between India and Pakistan.

OFFICE OF INTERNATIONAL TRADE POLICY
DEC 30
DEPARTMENT OF STATE

RECD DEC 19
ACTION ITP
INFO FR DCR NEA OFD TRC COM TAR

Mr. K. C. Neogy, Minister of Commerce, during the course of a conversation with an Embassy officer on December 8th commented as follows on the question of Indo-Pakistan trade relations. He said that he saw no signs of a break in the general deadlock. He then took up in more or less detail various points of this problem, among them the following:

ASSAM RAIL LINK

The Delhi STATESMAN of December 3, 1949 published the following press despatch:

"The Assam rail link, nearly 200 miles long, connecting Kishenganj in north Bihar with the existing railway line in Assam to the north of the Brahmaputra has been completed ahead of schedule and the line will be open for goods traffic in the next few days, it is learnt.

"This link which has considerable strategic importance and economic potentialities cost about RS 10 crores. Jute and tea from Assam will be transported to Calcutta by this route. Until now India had to depend on the East Bengal Railway of Pakistan for transportation of goods to and from Assam.

"Indian engineers and labour who built the line had to contend against great odds. A large part of the line passes through the thick forests of the Himalayan foothills infested by tigers and wild elephants. In many tracts traversed by the line, the annual rainfall amounts to about 200 inches. The builders had to fight a ceaseless battle against malaria and other malignant fevers. About a dozen bridges had to be constructed and the task presented almost insurmountable difficulties.

"The workmen came mostly from Orissa, Bihar and the U.P.

"Where the new line passed through tea gardens and other fertile areas compensation was paid for the land taken for the line."

Mr. Neogy said that traffic would actually begin on the Assam rail link on December 9. Mr. Neogy had advised the Embassy on October 3, 1949 (Embtel 1176 October 3), that this rail link would probably not be completed before March 1, 1950 during which time India would be compelled to a large extent to

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12/9/49

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JAN 19 1950
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mark time with respect to its economic relations with Pakistan since the only rail connection between Assam and West Bengal, prior to the completion of the rail link mentioned in the press despatch, passed through Pakistan. With the completion of the Assam rail link India could afford to be much more independent in its dealing with Pakistan. Mr. Neogy said that it would take some time to develop trade fully along the new route as roads would have to be built to connect certain areas with the new rail link and he implied that India would continue to pursue a cautious policy until the flow of trade moving via the new rail link was well established and integrated.

JUTE

Pakistan is refusing to allow jute purchased prior to the devaluation of the Indian rupee to move into West Bengal, according to Mr. Neogy. His remark was supported by a press despatch which appeared in the Delhi INDIAN NEWS CHRONICLE of December 10 under a Bombay dateline of December 8, which reads as follows:

"The Pakistan Government are reported to have held up nearly 500,000 bales of raw jute already loaded on barges and 'flats' bound for India, according to reports received here. The contract to buy this jute, it was stated, was entered into before devaluation and money had also been paid for it.

"Last week representatives of the Indian Jute Mills Association visited Dacca and discussed the matter with the Pakistan Jute Board. It was represented to the Board that since cash for the jute was paid before Pakistan's "no-devaluation" decision, the contract should be executed. It was further pointed out to the Pakistan authorities that if the loaded jute was not immediately permitted to be moved the stocks would deteriorate and get damaged.

"The Board, it is reported, was not prepared to release the stocks, whatever the legal or moral position might be, on the ground that the Pakistan Government would not permit any movement of jute till the devaluation controversy was settled. The steamship companies, most of them British-owned, who were directed to unload the cargo, have refused to do so because they had already been paid for the carriage and there was no godown to dump them."

Mr. Neogy said that he found this action on the part of the Pakistan government very disquieting. He placed the blame to a large extent on a Mr. Isphani, a businessman in Dacca, who is a member of the Jute Board. Mr. Neogy said that considerable quantities of jute were moving out of East Bengal into West Bengal despite the embargo imposed by the Pakistan government on jute exports. He declined to comment on the quantity of jute which was entering Calcutta in violation of the embargo since naturally it would not be in the interests of the GOI or the West Bengal government to give out any figures on such traffic. However, he said that he was hopeful that the mills could carry on until the beginning of the next season on the same basis on which they are now operating.

MICA

I mentioned the fact that the Embassy had heard that the GOI contemplated imposing a 30 percent export duty on mica. I also added the Embassy had been

informed on a lower GOI level that no such action had been considered but that I was mentioning it merely to indicate that the threat of the imposition of such a duty was a source of concern in the United States. Mr. Neogy said that he would take note of my remarks but again emphasized that to his knowledge no such step had to date been considered by the GOI.

COAL

I asked Mr. Neogy if the GOI was still adhering to its policy of regular exports of coal to Pakistan. He said that such was the case and added that the coal position in India was such that it would be very disadvantageous to coal producers if India should ban exports of coal to Pakistan. He also said that both East and West Bengal would suffer since transport between the two provinces was largely dependent on Indian coal.

CITRUS FRUITS

Reverting again to the economic deadlock between India and Pakistan, he cited the case of citrus fruit growers in that part of Assam bordering on Pakistan. In order for this fruit to reach a market in India or in Pakistan it had first to reach river transport within Pakistan. Owing to the economic deadlock prevailing between the two dominions, oranges were rotting on the trees in that area.

LIME

Continuing, he mentioned the production of cement in that portion of Assam (Sylhet) which went to Pakistan when India was partitioned in 1947. With the boundary line as it was then drawn, the limestone is in India and the cement plant is now in Pakistan. Large quantities of cement have accumulated at the plant since the devaluation of the rupee and cannot be moved into India.

For the Ambassador:

Howard Donovan,
Counselor of the Embassy.

CC: Bombay, Calcutta.

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OFFICE OF FINANCIAL AND DEVELOPMENT POLICY
DEC 22 1949
DEPARTMENT OF STATE

Control 8791

Rec'd December 21, 1949
5:21 p.m.

21555
DIVISION OF INVESTMENT AND ECONOMIC DEVELOPMENT

FROM: New Delhi

TO: Secretary of State

NO: 1585, December 21, 11 a.m.

DEC 22 1949

DEPARTMENT OF STATE

DEPTEL 911, December 16.

(1) Officials food ministry last week informally told us they could use all wheat Pakistan has to offer up to 500,000 tons provided agreement could be reached re terms. Main obstacle to purchase appears to be impossibility transfer funds from India to Pakistan until an official exchange rate is established. There also seems to be some difficulty with regard to price.

(2) There have been number of talks between myself and members Embassy staff with various Indian officials during which we have endeavored impress on GOI importance terminating India-Pakistan trade war. All officials agree in principle but emphasized technical difficulties.

(3) In mid-November Taylor, agriculture counselor, made informal suggestion to official food ministry that pending reaching agreement re rupee exchange India might obtain Pakistan wheat through barter. He followed this up with similar suggestion to Pakistan high commission. These suggestions apparently fell on friendly soil since GOI made formal proposal December 10 to GOP to exchange Indian cloth for Pakistan wheat. It is understood Pakistan High Commissioner favored such a deal. On December 16, however, Indian Commerce Secretary told Taylor GOP had rejected offer in absence of an official rupee exchange rate. Taylor has again today discussed this matter with

Pakistan High Commissioner

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Pakistan High Commissioner who showed him telegrams containing GOI's offer and GOP's refusal. This refusal was accompanied by suggestion that wheat be purchased in simple and straight-forward financial transaction. Such transaction would necessitate establishment rupee exchange rate. Taylor made certain suggestions to Pakistan High Commissioner as to ways of overcoming deadlock on this particular deal and High Commissioner said he would re-submit matter his government.

(4) Re paragraph 4 URTEL this Embassy has not been encouraging GOI to make any proposal to US for wheat aid to India and had not contemplated in case such proposal would be made to comment in a manner which would embarrass US government. We would however have made, and, unless explicitly instructed to the contrary still plan to make in case proposals are advanced such courteous comments as seem to us to be appropriate to the occasion. We do not expect proposals in near future since for time being GOI seems to have lost hope purchase wheat unless in exceptionally favorable terms. No Indian official has mentioned matter to me since my return.

Sent Department 1585; repeated Karachi 107.

HENDERSON

AGA:RWP

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25
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SECURITY : CONFIDENTIAL

PRIORITY: AIR POUCH

TO : Department of State

FROM : New Delhi 1225 December 22, 1949 1 Enclosure

REF : Embtel 1585 Dec. 21, 1949

1950 JAN 3 AM 9 47

SUBJECT : Proposed Barter for pakistan Wheat.

ACTION NEA

INFO FR DCR ITP OFD OLI L AGRI COM TAR TREAS ECA scm

For the information of the Department there is transmitted a Memorandum of Conversation which contains further particulars concerning the unsuccessful attempt made by the Government of India to barter cloth for Pakistan wheat. It may be mentioned that the suggestion which the Agricultural Counselor made to the Pakistan High Commissioner, whereby the barter might be accomplished on a basis which would not require the reimposition of cloth control in Pakistan, was made by him on the spur of the moment. It is probably too complicated to receive serious consideration by the Government of pakistan, particularly as Pakistan can probably sell its wheat and buy its cloth elsewhere.

For the Ambassador:

Howard Donovan
Counselor of Embassy

Enclosure:
1. Memorandum of Conversation, December 20, 1949

CC: Karachi.

CCTaylor/jas 12/21/49

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Enclosure No. 1 to Despatch No. 1225, dated December 22, 1949 from Howard Donovan, Counselor of Embassy, American Embassy, New Delhi, India, subject: "Proposed Barter for pakistan Wheat".

MEMORANDUM OF CONVERSATION

DATE: December 20, 1949

SUBJECT: Proposed Barter for pakistan Wheat.

PARTICIPANTS: The Pakistan High Commissioner.

Clifford C. Taylor, Agricultural Counselor.

The Pakistan High Commissioner has shown me Desai's telegram of December 10 and the Pakistan reply of December 14 concerning barter of Indian cloth for pakistan wheat.

For each ton of Pakistan wheat, f.o.b. Karachi or border station, Desai offered to barter 210 square yards of fine or super fine cloth, 52 square yards of medium cloth and 140 square yards of coarse cloth, the cloth to be delivered f.o.b. Bombay, total quantity and further details to be worked out subsequently.

The Pakistan reply declined the offer on two grounds: (a) it provided no means of liquidating pakistan bank balances in India and (b) it would be inconvenient and inexpedient to reimpose cloth control in Pakistan as would be necessary for distributing the cloth to the trade in Pakistan.

A counter proposal was made that India, in a simple and straight forward manner, should offer a monetary price for Pakistan wheat.

I told the High Commissioner that my concern in the matter arose from the fact that new difficulties between India and Pakistan were arising without any noticeable diminution of old problems and I would like to see this barter of cloth for wheat worked out so that there might be at least one clear illustration of progress in liquidating some of the outstanding difficulties.

With reference to the second objection in Pakistan's reply, I suggested a method whereby India could get some pakistan wheat

and Pakistan could get some Indian cloth without any necessity for the pakistan Government to reimpose cloth control. I suggested that GOP might sell its wheat to GOI at an agreed price in Indian rupees and that GOP might get its money by selling to cloth importers in Pakistan cloth purchase authorizations to be used in India for the purchase of Indian cloth in Indian rupees. GOP could charge the pakistan cloth importers any exchange rate it likes, providing it did not make Indian cloth too costly for resale in Pakistan. The Government of India, recognizing these authorizations when duly endorsed, would pay the cloth sellers in India for the cloth sold against the pakistan authorizations. The initial transaction would have to be for a relatively small total, represented by perhaps no more than the price of 50,000 tons of wheat. Similar transactions could be made in subsequent months when it is established that the pakistan Government can realize much larger sums of money from cloth buyers for the purchase of Indian cloth.

The High Commissioner told me he thought he would be justified in placing such a proposition before his Government.

CCTaylor/jas

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DEC 30 1949
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Memorandum of Conversation

DATE: December 23, 1949

SUBJECT: India's Offer to Barter for Pakistan Wheat

PARTICIPANTS: Mr. M. O. A. Baig - Chargé d'Affaires a.i., Embassy of Pakistan

Mr. Mathews - Director, Office of South Asian Affairs
Mr. Fox - SOA

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GPO 1—1493

Mr. Mathews referred to the comments made by the Pakistan Ambassador to the Secretary on November 21 concerning Pakistan's fears with regard to India's attempts to obtain wheat on special terms in the US when Pakistan had a large exportable surplus. The Department had recently received a report that the GOP has refused a GOI proposal for an exchange of Indian cloth for Pakistan wheat, and found it difficult to reconcile this report with the Ambassador's comments. Mr. Mathews inquired whether the Chargé could throw any light on this subject.

Mr. Baig replied that he had not been informed of any such barter proposal by the GOI, and that he would cable his government for information.

001294

DIVISION OF SOUTH ASIAN AFFAIRS
File
DEC 29 1949
DEPARTMENT OF STATE

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DEPARTMENT OF STATE

INCOMING TELEGRAM

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Rec'd December 26, 1949
6:51 p.m.

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FROM: New Delhi

TO: Secretary of State

NO: 1601, December 26.

Minister Commerce announced in Parliament Saturday Government of India was temporarily suspending export coal to Pakistan account alleged failure Government of Pakistan fulfill terms June 1949 inter-Dominion trade agreement, particularly by preventing export up to half million bales jute already paid for and delaying transit approximately hundred thousand bales Assam jute through East Bengal. Minister declared Government of India readiness resume coal shipments and even make up arrears upon resumption jute trade by Pakistan.

Minister rejected alleged Government of Pakistan argument only obstacle to fulfillment trade agreement to be Indian failure recognize rate exchange, saying Pakistan State Bank does not buy or sell Indian rupees and prevents other banks or individuals doing so except at rate notified by Government of Pakistan.

According press, Minister's announcement vigorously applauded. Today's press reports no official Karachi reaction, but AP Pakistan message from Dacca stresses possibilities retaliatory measures, including resumption trade relations South Africa, suspension transit petroleum supplies East Punjab through Karachi, and suspension Assam traffic through East Bengal; same message reports East Bengal Jute Board spokesman as denying obstruction passage Assam jute and claiming possibility delays due searching barges account suspicion illegal arms, ammunition traffic. Text Commerce Minister's statement follows airmail.

HENDERSON

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DEPARTMENT OF STATE

INCOMING TELEGRAM

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Control 10271

Rec'd December 27, 1949
9:49 a.m.

FROM: New Delhi

TO: Secretary of State

NO: 1606, December 27, 9 a.m.

SENT DEPARTMENT 1606, REPEATED KARACHI 108.

Embassy notes statement DEPTEL 931, December 23, that India-Pakistan wheat deal may materialize. Does Department have information more recent than EMBTEL 1585, December 21, on Pakistan refusal barter and Pakistan insistence on establishing rupee exchange rate before selling to India? Despatch 1225, December 22, reported details.

HENDERSON

RR:RT

DEPARTMENT OF STATE
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FOREIGN SERVICE OF THE
UNITED STATES OF AMERICA

Action - FD

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SECURITY: RESTRICTED VIA AIR POUCH
TO: Department of State, Washington, D. C.
FROM: American Embassy, Karachi, 691 December 29, 1949
REF:
SUBJECT: Intensification of Economic Cold War between India and Pakistan

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The New Delhi press has reported the speech of Indian Commerce Minister Neogy on Christmas Eve, announcing the cessation of coal exports to Pakistan in retaliation for Pakistan's alleged interference with shipment of 500,000 bales of jute to Calcutta.

Mr. Neogy also complained of Pakistan interference with the shipment of Assam jute by direct rail and barge routes across East Bengal to Calcutta. It was his contention, as reported in the press, that the Pakistan authorities were unreasonable in requiring proof of Indian ownership of jute before it was shipped to India and that inquiries failed to elicit what measure of proof was required. The Embassy assumes that the Department has already received a copy of this important speech from the Embassy, New Delhi.

The Pakistan reply was given by Commerce Minister Fazlur Rahman in a statement which, as reported by the Associated Press of Pakistan, is forwarded as enclosure No. 1. Mr. Rahman attributed the deadlock to India's refusal to recognize the Pakistan exchange rates after devaluation of Indian currency on September 19, 1949. He further alleged that the Government of India had unjustifiably increased the prices of coal supplied to Pakistan. Mr. Rahman argued that his Government had recently been made aware of the dispute regarding export of Indian-owned jute from East Bengal and had asked the Chairman of the Jute Board to consult with him (Mr. Rahman) on the subject. He maintained that India had taken the action of December 24th without allowing time for the Pakistan Government to investigate the charges and arrange a modus vivendi.

The drafting officer has discussed this point with two senior British business men, both of whom have recently visited East Bengal. Both are more sympathetic to Pakistan

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than to India on the Kashmir and numerous other issues, but both feel that Pakistan's attitude with respect to jute exports has been unjustified and provocative. One of them quoted a conversation between an Indian merchant and Mr. Ispahani of the Jute Board. Mr. Ispahani referred to his own interest in a jute mill in Calcutta for which he had been trying to secure the export of raw jute from East Bengal. He informed the Indian merchant: "I have had to give up." This was taken as a hint that the Pakistan authorities were determined to prevent the export of jute to India regardless of legal formalities.

The Pakistan answer appears to be that the jute in question (300,000 bales according to Fazlur Rahman and 500,000 bales according to Mr. Neogy) was owned by various Marwaris who sold from one to another, keeping no adequate record of the transactions. The British business men did not take the argument seriously.

Regarding the charge that Pakistan has interferred with transit trade in jute between Assam and Calcutta, Mr. Rahman argued it was necessary to examine this jute carefully in order to prevent the smuggling out of newly purchased Pakistan jute along with the jute in transit. The argument also is not accepted by informants.

It is now apparently conceded by all concerned that considerable quantities of Pakistan jute are being smuggled to India. Legal trade in jute between Pakistan and India appears to be practically impossible since the minimum price prescribed by the East Bengal Government exceeds the maximum price permitted by the authorities in Calcutta.

Enclosure No. 2 consists of two excerpts fromC. and M. Gazette of December 28, entitled"Agartala Jute Smuggling" and "Entire E. Bengal border manned by police to stop jute smuggling." Presumably the Consulate in Dacca will report as to the efforts being made in East Bengal in order to stop smuggling. Recent visitors to East Bengal state that many of the police along the border are happy to permit smuggling of jute provided they receive compensation equivalent to the normal customs duty. Although the East Bengal article mentions in the enclosure that the police patrols had "effectively checked smuggling" the Commerce Minister in enclosure No. 1. states "There has been large scale smuggling of jute from East Pakistan to India."

In view of the fact that East Bengal imports an estimated eight to nine hundred thousand tons of coal annually and the fact that Chittagong Port can handle only about 30,000 tons of coal monthly at the present time, this Embassy is unable at this distance to appreciate how Mr. Rahman can claim "Coal stoppage will do more harm to India than to Pakistan." Jute is a relatively perishable crop, and it seems certain that the quality of this year's crop will deteriorate greatly unless it is shipped before the monsoon season, 1950. This seems impossible unless the port of Calcutta is used. The views of Consulate Dacca on this and similar problems are awaited with interest. There is some doubt as to whether even Karachi can handle imports of more than 120,000 tons of coal monthly, an amount considerably below the estimated West Pakistan coal consumption.

There seems little doubt, in any case, that both India and Pakistan will suffer greatly from this intensification of economic warfare.

For the Charge d'Affaires a. i.

Franklin W. Wolf
Counselor of Embassy
for Economic Affairs

Enclosures: 1-4

1. Fazlur Rahman's reply, Dawn, December 28, 1949.
2. Agartala Jute Smuggling, C. and M. Gazette, December 28, 1949
   Entire E. Bengal border manned by police to stop jute smuggling. C. and M. Gazette, December 28, 1949.

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Copies to Dacca, Calcutta, Delhi, Lahore, London

DAWN, December 28, 1949

Page 10

"Coal stoppage will do more harm to India than to Pakistan"

— FAZLUR RAHMAN

Pakistan's Commerce Minister, Mr Fazlur Rahman, in a Press interview on Tuesday, accused India of violating the Inter-Dominion Trade Agreement.

"Pakistan has scrupulously observed the terms of the Agreement," Mr Fazlur Rahman said, "and therefore India's decision to suspend coal supplies to Pakistan is absolutely unjustified."

"This attitude of the Government of India," he added, "will do more harm to India than to Pakistan inasmuch as Pakistan is in a position to manage its requirements in coal from alternative sources."

"India is responsible for many breaches of the Inter-Dominion Trade Agreement," the Commerce Minister observed.

He laid the blame for the trade deadlock between Pakistan and India at the latter's doors, tracing its genesis to the non-recognition of Pakistan's rates of exchange by India, while the rest of the world had accepted them.

The Government of India had stopped trade in coal which, he emphasised, was distinct from trade in jute and was on a Government-to-Government level governed by the Payments Agreement supplementing the mutual exchange of Essential Commodities Agreement.

Long before the suspension decision, he said, the Government of India had without any justification raised the prices of coal supplied to Pakistan had received this coal at increased prices under protest.

"EXCUSES"

Referring to the "excuses" given by the Indian Commerce Minister in defence of the suspension decision, "which cannot be justified on any ground", Mr Fazlur Rahman said that the holdup of the three lakh bales of jute, behind which Mr Neogy had tried to take shelter, "was due to the failure of the Indian purchasers to provide proof of payments for the quantity of jute in question to the satisfaction of the Pakistan Jute Board."

He disclosed that the Government of India had been requested by the Pakistan Government to direct the Indian purchasers to furnish proof of payments to the Jute Board. "Till recently no such proof was forthcoming," he said.

"Only three days ago," he disclosed the Indian Government communicated to the Government of Pakistan that certain proof was furnished to the Jute Board and complained that the Jute Board did not accept it."

DIFFERENCE OF OPINION

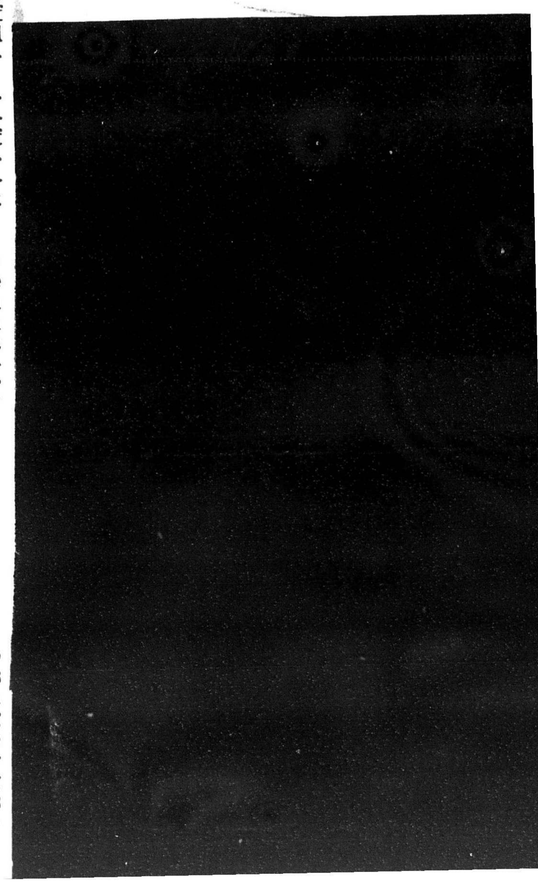
The Commerce Minister added: "We informed India that as there had been some difference of opinion as to the facts of the case between the Jute Board and the Government of India, we had sent for the Chairman of the Jute Board to consider these instances and the complaint."

But, without giving any time to the Government of Pakistan to look into the complaint, he said, the Government of India, as a retaliatory measure, suspended coal supplies to Pakistan. "The Government of India should not expect that jute which is not paid for should be allowed to be moved to India," declared Mr Fazlur Rahman.

When his attention was drawn to the Indian Commerce Minister's statement that the authorities in East Pakistan had been interfering with the jute transit from Assam to India across their country, Mr Fazlur Rahman said that to stop smuggling of jute from East Pakistan, it was necessary to check all jute in transit.

IMMORAL PRACTICE

He added: "There has been [illegible]



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IMMORAL PRACTICE

He added: "There has been large-scale smuggling of Pakistani Jute from East Pakistan to India. We requested the Government of India to co-operate with Pakistan in stopping the smuggling, as it would not do credit to Indian traders to indulge in such unlawful and immoral a practice.

"If the Government of India had co-operated with us, there would have been no necessity of taking precautions to see that the jute in transit from Assam had not been mixed up with the smuggled jute. These precautionary measures might mean delay in the shipment of transit goods, but it had never been, and is not, the intention of the Pakistan Government to interfere in any way with the goods in transit."

It was up to India to see that Pakistani jute was not smuggled and thereby facilitate the carriage of transit goods to India from Assam, Mr Fazlur Rahman concluded.—APP.

Enclosure No. 2 to Despatch 691, December 29, 1949
from American Embassy, Karachi, Pakistan.

CIVIL AND MILITARY GAZETTE

December 28, 1949

AGARTALA JUTE SMUGGLING

Case against air company

(From Our Correspondent)

CALCUTTA, December 27.—In connection with the eye-witness account of jute smuggling by aircraft from Agartala to Calcutta, published in "The Civil and Military Gazette" of November 22, the following report of a suit which has been taken up by Mr. Justice Bannerji of the Calcutta High Court may be of interest. The plaintiffs are Messrs Bhutoria Brothers, Limited, a Marwari concern, and the defendants none other than the Kalinga Air Lines, who were mentioned by name in "The Gazette's" article.

For the present, the plaintiffs have filed a petition asking, inter alia, for an interim injunction, pending the hearing of the whole case, to restrain the defendants, Kalinga Air Lines, from carrying jute in the trips allotted to them in the operation between Agartala and Dum Dum for any other person, firm or Company except the petitioners, Bhutoria Brothers, Limited. Both parties were represented by eminent counsil, Mr D. C. Sethia appearing for the plaintiffs and Mr Niren Dey for the defendants.

The petitioner's case was that an agreement was entered into between them and the defendants for the carriage of jute from Agartala to Calcutta at the rate of a minimum of 18,000 pounds per each of the six trips made by the defendants' aircraft. The terms were that the petitioners would pay freight for such carriage at the rate of one anna and six pies per pound. One of the terms was that the petitioners would have the monopoly of getting jute by the defendants' aircraft and that they would not be entitled to employ any other air service for getting their jute supply from Agartala to Dum Dum.

The petitioners alleged that, in breach of the above agreement, the defendants had refused to carry the petitioners jute from Agartala to Calcutta and were, in fact, getting jute from that place for other persons, including the petitioners' rivals in trade.

The petitioners went on to say that there were other operators in the field getting jute from Agartala to Calcutta by air. There were innumerable private and charted aircraft as well as the Birla fleet of aircraft, known as Bharat Airways. But the petitioners were not in a position to avail themselves of the former or of the latter because such services were monopolized by other concerns.

The petitioners had filed a suit against the defendants for the specific performance of the agreement and now applied for the above interim relief. The defendants denied the allegations made against them and alleged, in turn, that the petitioner had brought huge quantities of jute from Agartala by private, chartered and regular-service aircraft. After hearing counsel for both sides, the court gave certain directions. Kalinga Air Lines made an undertaking to bring to Calcutta for the petitioners weekly consignments of jute totalling 84-000 pounds. The hearing of the application as a whole was fixed for January 6.

Entire E. Bengal border manned by police to stop jute smuggling

DACCA, Dec. 27 (APP).—Reviewing the activities of the Government during the current month Mr. Nurul Amin, the East Bengal Premier in a recorded talk broadcast from Radio Pakistan, Dacca, last evening disclosed that his Government had taken 'strict measures' to stop smuggling of jute by manning the 1,400 miles of border line with an adequate number of police patrols. This had effectively checked smuggling, he added.

Stating that the Government received full co-operation from the people the Premier said, "it must be said to the credit of the growers of jute that they themselves seldom took recourse to this unpatriotic course but it was a section of the dealers in jute mostly non-Pakistani who purchased jute from the unsuspecting growers and smuggled it out with a view to keep the mills of Calcutta going for a few days more and to keep themselves in touch with jute business in East Bengal as they were losing the field on account of the intransigent attitude of India in accepting Pakistan currency."

Claiming credit for the Government in piloting the Bill for abolition of zamindari in the Province Mr. Nurul Amin said that almost all the important and "controversial" clauses of the East Bengal State Acquisition Bill had been passed by the Legislature by December 19, and the Assembly would resume its session for the final passage of the Bill.

age of good brands of tea in the Province. Explaining the difficulties in good brands of tea he said that East Bengal's indigenous tea, which is grown in considerable bulk, had so long been blended with Darjeeling tea and marketed. Recent suspension of supply of good blend Indian tea from Calcutta had made the authorities quite alive to the question of developing the tea industry and steps were being taken to produce high class tea both for internal consumption and foreign export. This, he said, was discussed and considered by the second Pakistan Tea Conference held in Dacca this month.

EDUCATIONAL PROBLEM

Referring to the educational problem the Premier stated that steps were being taken and plans formulated for the re-organisation of the educational system "to accord with the national needs and aspirations of the people of Pakistan." In this connec-

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FOOD SITUATION

Expressing his satisfaction regarding present food situation the East Bengal Premier said, "the prices of rice continue to show a downward trend and people are reported to have reduced drawing their rice and wheat rations from the ration shops and Government had to relax rationing regulations. A marked improvement in the supply of kerosine oil and sugar had led the Government to decontrol kerosine and increase the sugar quota from the second week of December."

He also mentioned the present shortage of good brands of tea in the Province. Explaining the difficulties in good brands of tea he said that East Bengal's indigenous tea, which is grown in considerable bulk, had so long been blended with Darjeeling tea and marketed. Recent suspension of supply of good blend Indian tea from Calcutta had made the authorities quite alive to the question of developing the tea industry and steps were being taken to produce high class tea both for internal consumption and foreign export. This, he said, was discussed and considered by the second Pakistan Tea Conference held in Dacca this month.

EDUCATIONAL PROBLEM

Referring to the educational problem the Premier stated that steps were being taken and plans formulated for the re-organisation of the educational system "to accord with the national needs and aspirations of the people of Pakistan." In this connection he referred to the recent session of the Pakistan Advisory Board of Education held in Dacca which was attended by 25 delegates from different parts of Pakistan.

Opening his broadcast Mr. Nurul Amin paid glowing tributes to the late Maulana Shabbir Ahmad Usmani and said, "we shall never forget the visit he paid to this Province last year and all that he said at various meetings, his profound scholarship, his fine humanism and his serene personality, always came into prominence and left an indelible stamp on the mind of the people of this Province."